

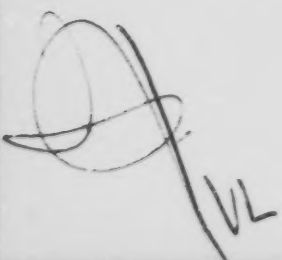
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**Hearings
of the
National Commission
on
Dairy Policy**

Volume II

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Hearings of the National Commission on Dairy Policy

Volume II

Hearing	Date
Fort Wayne, Indiana	June 16, 1987
Denver, Colorado	July 14, 1987
Arlington, Texas	July 15, 1987
Springfield, Missouri	July 15, 1987
White River Junction, Vermont	August 3, 1987

The National Commission on Dairy Policy held 10 hearings in different dairy production areas across the United States during the period March through August 1987. The hearings were publicized, announced in the Federal Register, and all interested people were provided an opportunity to testify. The Commission especially welcomed testimony from milk producers as well as processors, dairy leaders, and agricultural analysts.

Each witness was given an opportunity to revise and extend his or her remarks so that testimony delivered by people who are unaccustomed to public speaking could be corrected for misstatements.

FORT WAYNE, INDIANA

June 16, 1987

Marriott Hotel

9:00 A.M.

Mr. Rutherford: We will come to order.

We have three more commissioners yet to be coming into the room. Again we are very pleased to be here in Fort Wayne, Indiana, and I am very appreciative of the list of people who have asked to testify. It is a very important part of our work to hear not only from organizations representing dairy farmers, but from organizations representing the dairy industry, the processors, and particularly the dairy farmers themselves. I am glad to see that there are a number of dairy farmers who are going to be on the program.

We will go as late in the day as necessary to give everybody the opportunity to testify. I have asked Jack Laurie to chair the hearing this afternoon, as I need to keep another commitment, but the rest of the commissioners will be here and this will go into the record.

If there is anyone that has a time problem that would like to adjust the schedule, if they would let me know I will do everything I can to accommodate them.

Our first witness for this hearing is Herman Brubaker, President of Milk Marketing, Incorporated.

Herman:

Mr. Brubaker: Chairman Rutherford and members of the commission:

I welcome this opportunity to meet with fellow dairy producers who are members of this commission, and to discuss some of the important issues confronting dairy farmers and the dairy industry.

My name is Herman Brubaker, and my address is West Alexandria, Ohio, in Preble County, not too far from the Indiana border. I am a full-time dairy producer and president of Milk Marketing, Incorporated. Milk Marketing, Incorporated is a milk marketing cooperative with headquarters in Strongsville, Ohio, which has as its members some 7,400 dairy farmers located in the areas of western Pennsylvania, western New York, West Virginia, Ohio, southern Michigan, Indiana, and northern Kentucky.

I might add at this point that Milk Marketing, Incorporated, is a member cooperative of the National Milk Producers Federation, and I am a member of its board of directors and a member of its executive committee. I would urge that this commission consider very carefully the view of the Federation, since it represents the combined thinking of the majority of dairy farmers across this country.

This statement is made on behalf of myself and Milk Marketing, Incorporated. I wish to commend this commission for scheduling this series of hearings throughout the country.

In establishing this commission, it was obvious that Congress wished to have significant input from dairy farmers into discussions concerning future dairy legislation. They directed you to study and report on:

- (1) The current dairy price support program for milk;
- (2) Alternatives to the program;
- (3) The future functioning of the program;
- (4) New technologies which will affect the industry by the end of the century;
- (5) The effect of such new technologies on surplus milk production; and
- (6) The future structure of the dairy industry.

While I do not consider myself to be an expert in these areas, I've had some experience in trying to help formulate dairy policy.

There is no question in my mind that the dairy price support program has been extremely helpful to dairy farmers, and also to the public as well. Since the dairy price support program was established in 1979, it has generally done an excellent job of stabilizing prices to dairy farmers, and to the consumers.

Because of this stability, lenders are willing to loan the capital needed to take advantage of new technologies. This faith shown by the financial industry for our price support program has helped make our industry one of the country's most efficient. However, it seems that most of the gains from these efficiencies have not accrued to the benefit of the dairy farmer, but to the consumer of dairy products.

I would have to admit that the price support program has not worked as well as in the early 1980's as we may have liked. Experience would tell us that while the program was not generally at fault, it needed a better method of adjusting the support price levels to the economic conditions that affected not only dairy but all of agriculture.

Perhaps it is time to revisit the idea of establishing the level of the support price by an economic formula, rather than relying so heavily on political judgment. While it is doubtful that an economic formula can be devised that will give the perfect support price under all conditions, we have experience that political judgment is not always that correct either.

As I have indicated, I believe that the price support program is very important to the dairy industry. However in my opinion, to rely solely on price to reach the proper supply/demand relationship is not the most efficient method, especially during the times when we need to decrease production. A continuing lower price for raw milk from the farm will squeeze out enough dairy farmers and eventually enough dairy animals to lower product.

The major drawback to this procedure is that even those who survive the shake-out are in a weak financial position. Therefore it will take them a substantial time to recover financially in order to take advantage of technological advances and efficiencies in producing milk. As I indicated previously, most of the benefits from these technological

advances are passed on to the consumer; thus financially weakened dairy farmers are not only bad for themselves, but eventually the consumers, too. The success of the whole herd buyout indicates that, in times when substantial downward adjustments in production are needed, an alternative to strictly lower support prices is very helpful.

I believe the reason the whole herd buyout was so effective is because it cut directly to the problem—that of reducing the number of dairy animals on farms. When a dairy farmer is forced to sell out, a substantial number of those dairy animals are purchased by his neighbors so that they can increase their production and hopefully meet their cash flow problems. Under this scenario, we get rid of a dairy farmer but not too many of his milk cows.

In my opinion it would not take much imagination to revise some of the rules that exist under the whole herd buyout so that it could become a permanent program, possibly funded totally by dairy farmers. Other supply management programs, such as the two-tier pricing plan, can also be devised that would be more efficient than price alone to regulate production.

Many plans would work but as most of us who have tried to design dairy programs know, the difficulty is not in devising a workable plan, but in devising one that will have enough support to be enacted into law.

With new technologies on the horizon, the problem of proper supply/demand relationships will undoubtedly increase. While I do not believe that this upcoming technology will drastically change established trends, it may increase certain trends to some extent. For instance, the introduction of BST will probably continue the trend of increased production per cow.

While BST seems to be the glamour technology on the horizon, we very well could have other technological improvements that may have as much or more impact on our industry. For instance, I don't recall much concern when calf hutches were introduced on to our farms. However, they may have had as much to do with the increased production in the last 10 years in our area as any other innovation that we have experienced during that time.

The end result is that we can expect increased production per cow and therefore increased production per farm. With this almost certain increase, we either must continually expand our demand for dairy products or substantially reduce the size of our national dairy herd.

During the past 3 years, the demand for dairy products has increased approximately 3 percent per year. As a member of the National Dairy Promotion and Research Board, and also a board member of the United Dairy Industry Association, I am deeply involved in the promotion of dairy products, and I believe that it is highly unlikely that we can permanently sustain this very strong upward surge in the sale of dairy products. Should this increased demand for dairy products slow, and production per cow continue upward, it is obvious that we need programs which efficiently and effectively reduce the cow numbers on American farms.

Because of these reasons I would urge this commission, in its report to Congress, to suggest and recommend programs

that do not rely solely on price to influence the production of milk.

As to the future structure of the dairy industry, I see no radical changes but expect that the current trends will continue, those trends being larger dairy farms but less dairy farmers, larger but less processing plants, and larger but less number of retail stores selling to consumers.

In general, I believe that most of the fluid operations will continue as they are now, in the hands of proprietary handlers. A few years ago it was the general consensus that by now most of the fluid milk processing plants would be in the hands of the cooperatives or supermarket chains. I don't see this happening in the near future and, in fact, the trend that had started 10 years ago toward that end seemingly has reversed. The trend, however, toward larger and larger supermarket stores in which the majority of our consumers are purchasing their milk is continuing, at least in our area.

I see more milk being produced in those areas which are currently the highest producing areas, and less milk being produced in the areas where dairy farms are generally sparse. In some areas this change will add to the already major problem of transporting milk from where it is produced to where it is needed. This transportation cost is generally being borne unfairly in most markets by members of cooperatives. Somehow this inequity must be corrected. While recent legislation has now made it legal to use federal order pool funds to help pay for these costs, we have yet to see this legislation being implemented.

In conclusion I would like to state that the greatest need at this time is for Congress to establish a long-term agricultural policy which will give farmers, and particularly dairy farmers, necessary assurances about their future. Dairy producers need to be assured that if they invest their resources in efficient dairy operations, they will have a reasonable chance of making a fair return on their investment and maintaining a standard of living comparable to other segments of the economy.

At this point most dairy producers feel that the government is hooked on a "cheap food" policy, and that anything they do to help themselves will be offset by some kind of action by the government to hold raw milk prices to the level that the government perceives is correct. The threat of allowing substantial increases in imports of dairy products is a continuing concern.

I again wish to thank this commission for allowing me to present my views and the view of Milk Marketing, Incorporated. I hope this information will aid Congress in future deliberations on dairy policy.

Thank you.

Mr. Rutherford: Thank you, Herman.

Are there any questions from the commissioners? Bob Foster.

Mr. Foster: On page 4, you talked about a permanent whole herd buyout program totally funded by dairy farmers. How would you do this, through assessments?

Mr. Brubaker: I think that the program would have to be somewhat along the lines of this: That you would have to

have some kind of trigger effect that would implement the program. If you would reactivate the whole herd buyout program now, I think all of you realize that you wouldn't have the 10 percent that we had in the initial program.

I think that in my mind and in everyone's mind is that you have to do something on a regional basis. I think that it stands to reason that you ought to place maybe a higher value on bred heifers than on a cow that has had her fifth, sixth, or seventh lactation, something of a percentage type.

Mr. Rutherford: Along that same line, would you be in favor of some sort of heifer removal program, either separate or concurrent?

Mr. Brubaker: I would be more in favor of the heifer removal plan if it was conducted with the whole herd buyout plan.

Mr. Horner: If this commission recommended a supply management program of any sort, how would you propose that we recommend taking care of the surplus part of the supply management program?

Mr. Brubaker: I hope I am following you right, Mike. Milk Marketing, Incorporated, is on record for their recommendation. Their preferential choice, number one, is the reversing of the whole herd buyout, and, number two, is the two-tier pricing program.

Is that what you are after, Mike?

Mr. Horner: Yes. Of course, on a two-tier pricing system you can dispose of the surplus area. Would you recommend that the surplus part of the supply management program be shared with all the producers in the country?

Mr. Brubaker: Yes.

Mr. Shade: Mr. Brubaker, if we continue under the 1985 farm bill up to 1990, do you anticipate production is going to rise substantially under the present condition of heifers and so forth, unless we have a different program?

Mr. Brubaker: As I stated previously I am no expert as far as being able to talk about a lot of farmers. You can't get a perfect answer from them, but as a dairy farmer I feel fit to say that, yes, with the number of farms that are out here in the country I believe that there will be an increase in production. It might not be as dramatic as we had in the conversion program, but I think just the whole curve of production per cow is up, and it will happen.

Mr. Laurie: I have two questions, Mr. Brubaker.

First, in your comments about the supply management program, am I right that you would suggest this as perhaps an emergency measure? You start out by supporting the price support program as it stands with the use of an economic formula. Okay, then you are suggesting that in conjunction with that program, there be some form of a trigger mechanism that if supply got to a point out of line, some other management program would kick in, is that what you are saying?

Mr. Brubaker: That is what I am saying, and specifically the whole herd buyout program be revised with some of the suggestions that I previously made as far as regionalities, values on heifers, and also as you heard in my statement I

personally don't believe that there would be too much objection as far as producers as far as an assessment.

Mr. Laurie: But as long as the price support program was functioning properly within the range, then this would not be in effect?

Mr. Brubaker: Yes, that is right.

Mr. Laurie: The other question has to do with your participation in promotion, and I know that you are actively involved in that area. Even though one of our charges say that we are not necessarily involved in looking at the future promotion and research, I don't think you can separate what happens in promotion and research from what happens in dairy policy long term.

You are not positive of the long-term impact of continued expenditures in the area of promotion. I would like you to give your point of view on that, because of your involvement in both U.I.A. and the National Dairy Board. Also, you didn't address the research part of the National Dairy Research and Promotion program, and I think that is critical to the long-term success of the industry.

Mr. Brubaker: If I don't remember all the parts of your question, why I am sure you will ask me again.

I did not mean not to be positive about the promotion program. What I tried to be was realistic. We now have the consumption per person of around 600 pounds, for the first time in a number of years. I think we have to be realistic enough to know that, at least in my mind, and I am speaking for myself, not as a member of the Board but for myself, that these types of increases that we have had in the past 3 years would be phenomenal if those types of increases continued on.

What I am saying basically is that to have future increases it would become more difficult, because there is just so much space in the human stomach, and personally with the type of consumption we are having now we are getting a major portion. I think a lot has to do with the life style. I think a big portion of our increase comes from the American life style as I now see it, with the households as they are and the instant preparations of meals, and as you see in cheese it is phenomenal the increase we have, and why? Because of the flexibility and ease in preparation.

As far as research, I am sorry I did not mention it, but I agree with you it is one of the most important, and if you see and have read what the National Dairy Board is doing, especially establishing these research centers, that this is something that is not going to be neglected. We on the National Dairy Board realize this is a very important segment of our operation.

Mr. Rutherford: Are there any further questions? Dick Shade.

Mr. Shade: Mr. Brubaker, under the support program we have had a unique situation where producers can produce unlimited amounts, and they value that privilege, and now we are at a crossroads. Are we willing as farmers to continue to drop the support price until we reach a supply and demand balance, or are we willing to curtail production for a tilt in higher prices? Which do you think your producers

would prefer, continued unlimited production on the farm at perhaps a lesser price, or lower production for a higher price?

Mr. Brubaker: As I stated in the prepared text, these are not only my views but we feel these are the views of the producers that are associated with Milk Marketing, Incorporated. If I understood your question right, first you said something about lowering support prices, and I spoke substantially to that in the prepared text, that we feel that is not acceptable, because it financially weakens the producer, and in the end the whole industry. The ones that do survive are financially weak, and the whole industry would suffer.

I believe, as I stated before, that the producers in our area first favor a continuation of the whole herd buyout type situation with some revision to it; and, secondly, two-tier prices which does certainly have some production controls in it.

Mr. Rutherford: Herman, we thank you, very much. You have very valuable testimony, and we appreciate your taking the time to testify.

Thank you.

The next witness is Kevin Kirk, representing Michigan Farm Bureau.

Mr. Kirk: Good morning, once again, Mr. Rutherford and commissioners. I would like to personally thank you for the opportunity to have breakfast with you all this morning and get to talk with you a little bit one-on-one.

My name is Kevin Kirk, and I am a commodity specialist in dairy and livestock for Michigan Farm Bureau. I have been employed by Michigan Farm Bureau for 9 years, and I am a graduate of Michigan State University with a Bachelor of Science Degree in dairy science.

I am pleased to have the opportunity to address the National Commission on Dairy Policy today and represent Michigan Farm Bureau's policy on the future direction of dairy policy. Michigan Farm Bureau is very pleased that this commission has been established to take a long-term look at the dairy industry.

Let me briefly update the commission on Michigan Farm Bureau's dairy policy. Michigan Farm Bureau supports a dairy price support program which will bring supplies in line with demand. Michigan Farm Bureau supports the use of an economic formula or a moving average of the previous 3 years' all milk price, for determining the support price in any future dairy policy. Michigan Farm Bureau feels that the current 1985 act should be left intact and thus complete its objective through 1990. Stability is important to a sound national dairy policy and there can be important benefits gained from staying on course.

Michigan Farm Bureau recognizes the challenge put forth by this commission to develop a recommendation that will solve the milk supply problem. Hopefully this commission will not recommend abandoning the current system of price supports and market orders for a new untested program. There was an old program which worked effectively for nearly 30 years that kept supply and demand in a reasonable balance. Authorized by the Agricultural Act of 1949, the program reduced excessive price variability, put a floor un-

der producer prices, provided an adequate milk supply, and kept government purchases, 3 billion to 5 billion, within a reasonable balance with market requirements. In addition, during this period of time the dairy industry went through tremendous technological changes, such as artificial insemination, DHIA testing, free stalls, pipelines, bulk tanks, as well as many other types of mechanism. Even though the industry went through these technological changes, the support programs successfully guided the dairy industry forward.

The Act of 1949 authorized the Secretary of Agriculture to maintain, raise, or lower the support price within certain parameters. It was this authority that provided the act's price discipline. In 1977 the authority was reduced and then later removed, which eventually sent a signal to the industry to increase production and thus the consequences being very evident today.

In looking back through history from 1949 to 1977, the Secretary of Agriculture left the support price unchanged for periods of 2 or more years on six occasions. The Secretary in addition maintained the support level at the minimum for 4 consecutive years, raised the support price 20 times, and lowered the support price only five times.

During this short time in history each of the five reductions in the support price brought about a decrease in government purchases. The point of maintaining the support level for periods of 2 or more years served as another disincentive to expand production. Throughout this nearly 30-year period, purchases by Commodity Credit Corporation averaged about 5 billion pounds of milk equivalent per year, compared with the 1980 to 1986 average of nearly 13 billion pounds. These excess purchases in the 1980's were not because the basic concept of the support program did not work, but rather that our support price setting mechanism was set too high.

In the late 1970's and early 1980's the support prices for milk were 80 percent of parity or above. An important point to remember about this type of a program is that when the price change occurs there is a time lapse for production to shift up or down rather than occur instantaneously. Understanding the mechanism is critical to why we must have a formula or procedure to move support prices that reflect the basic underlying economics and market conditions of the dairy industry.

Michigan Farm Bureau supports a price support program that is a national program which is made up of federal orders. The federal orders are needed to recognize regional differences in production and marketing conditions. The current federal order program must be administered in such a manner to allow it to adjust to regional conditions. Most importantly allowing individuals orders the flexibility to adjust their class I differentials to meet their market needs. There has to be some orderly understanding of the roles of the price support and market order programs. Every federal order should be able to stay competitive with other orders and thus keep the differentials in line. The current federal order program, if administered in such a manner, will properly reflect existing local market conditions.

The current programs must be adaptable to the future of the dairy industry and the impact of technology. Much is to be gained through agricultural research and the adaptation of new technologies so as to remain competitive. This commission cannot overlook the impact from the development of bovine somatotropin on the dairy industry. Results of research and the implications on public health, if any, must be achieved before the dairy farmers put this hormone to use. The gains that have been accomplished by the current 1985 Farm Bill could be destroyed overnight by improper information to the consumer.

This commission has a tremendous task before it in attempting to develop recommendations to the Congress and the administration on the future of national dairy policy. Michigan Farm Bureau supports a market-oriented dairy policy which will maintain both a supply/demand balance for a stable industry while reducing government expenditures for surplus dairy products. Michigan Farm Bureau supports the provisions of the 1985 Farm Bill, and believes that the objectives within will work to stabilize the dairy industry.

Thank you, for the opportunity to testify this morning.

Mr. Rutherford: Thank you.

Are there any questions? Bob Foster.

Mr. Foster: I have three questions.

First, what level of removals do you feel is an adequate trigger for an economic formula or adjustment? You spoke about 5 billion pounds as being the average of milk equivalent removed over the last 30 years. Is that a number that you feel comfortable with?

Mr. Kirk: Well, I point the figure out of 5 billion for the fact that we take a look at our government needs and their programs versus maintaining 2 to say 3 billion pounds in surplus as a reserve, you might say.

So, yes, I have to say as we look at the history of the country and the dairy industry, that seems to be a very comfortable figure that continues to crop up.

Mr. Foster: You also spoke about a lag time. Do you have an idea what that lag time might be? It depends on what you are dealing with as far as the mover.

Mr. Kirk: Yes, the mover depends on which way the mover is being adjusted, whether it is being up or down. There is always a period of time in the dairy industry that it has to adjust to make the changes, and as far as the time lag it seems that when you take a look at CCC purchases, and you tear off CCC purchases and put a graph on the same graph, a chart on the support price level, and then in addition chart out the production, it seems to show up as about a 2-year time lag that always occurs when you chart the three different areas that I spoke of.

Mr. Foster: Thank you, and what is your feeling about the current market order program, is it being administered effectively? I know it is only a peripheral issue here for us, but we have heard concern about, one, the differentiation and the role of each; and, two, the time lag that it takes to get effective decisions. I wondered if in this part of the country that was also a problem.

Mr. Kirk: Well, in the actual market order I think to stabilize the national program is definitely something that has to be addressed and maintained. I think a major concern is to have them work effectively within their so-called marketing area, where you can't have a southern marketing order or system that you are going to try to administer up here in the midwest or say in the western states. I think each one has to operate individually within a given realm or area of geographic locations. I am not sure, Mr. Foster, if that really addresses it.

Mr. Foster: I know in some areas of the country decision-making as far as procedure and that kind of thing is a real problem. Have you experienced the same thing in this area?

Mr. Kirk: Well, to a point. I guess if you look back at the 1935 Farm Bill and look at how we looked at changes in differential in different areas, and the concern, that would be a major concern that we have up here. As far as the timeliness I would dare say that I don't want to really comment on that at this time.

Mr. Horner: Mr. Kirk, you talked about the 1949 authority that the Secretary was given to raise or lower the price support. That authority was reduced in 1977. Does your organization favor going back to the 1949 level of authority?

Mr. Kirk: By all means. By all means.

Mr. Rutherford: Are there any further questions? Dick Shade.

Mr. Shade: Is it your position that we ought to control our supply solely by the support program? I notice you are silent on any mention of supply management. The observations some of us have is that the support program works very well and tends to increase production. It works very well as a stabilization factor. The hardship comes in trying to balance supply/demand by reducing the price.

Mr. Kirk: Well, it is easy to go up and it is tough to come back down, and it costs dairymen many dollars. No, I did not address that very heavily, but whether you want to call it a quota program or a mandatory control, the view of many of our Farm Bureau members in Michigan, I don't know the dairymen in this state wanting a quota or mandatory control program. I think that they feel very much in favor that there are other opportunities to control our dairy production and stabilize this industry. We too are very close to the Canadian program and have seen some of the activities over there, and some of the constraints that those dairy farmers operate under at that particular level.

I don't think, quite frankly, the dairy farmers feel they are ready for that, while at the same time the dairy farmers within the state realize that they cannot continue to produce milk at the levels they are and ask the government to provide them so they can keep going at the rate they are.

In reality if you look at the increased production throughout the state, and I think a lot of people psychologically in the back of their minds are, two things, increase in production because they realize the financial constraints that they are under and so they become much better managers and do a much better job and become more efficient.

Secondly, I feel that they are probably increasing production and getting to a higher level so that if mandatory controls or support program comes in line, then with their current operation or current dairy facilities they may be able to run, say, at 80 or 90 percent of capacity, and I think that that psychologically is stimulating some production for us.

Mr. Rutherford: Kevin, we thank you, very much. Will David Peters, dairy farmer from Brownstone, Indiana, please come forward?

Mr. Peters: Good morning. I don't have a prepared text so you can follow through. My name is David Peters, and I am a dairy farmer with my father and my brother, and we milk about 150 cows in south central Indiana.

I would like to share the fact that [sic] AMPI really does not speak for all the farmers that belong in our southern Indiana district. We go to our meetings and tell them we don't want quotas and the next thing we know they are putting out the fact that we all want quotas, but that just is not the case.

Many, many farmers in our area are not for supply management. It is against the grain of the free enterprise system. We do not believe that socialism or communism is a way the country needs to go. We have spent billions of dollars to fight it and why vote it in?

Another thing, quotas are all political once you become a political pawn. Reagan got New Zealand. He no more than got in office 6 months and they out schnookered him in the world trade on dairy products. What if the next president does that? Then they will lower our milk quotas to allow more milk to be imported into this country. It is to our detriment if we are under the political realm of the people, because we work for our money and they just set up and make decisions for us, and it is not to our advantage.

Once we have a quota we also feel like the price will be raised, you know. People will say, now I need more, then if when you raise it you lose market, and once you lose market you lower your production levels again. What it all comes right back down to, you are going to be told how much you can and cannot produce.

Another point, I don't have proof of it but I know it is pretty much of a fact, in Canada, since the quota has been in, more dairymen went out in that time frame than before. So did it help the Canadian dairy farmers? And I say, no.

That is what I have. These dairy co-ops in southern Indiana, we don't really have an opportunity to sell to anybody but a co-op. In other words, we have no suppliers to buy our milk unless we go through the co-op, and they really, you know, speak for us. We are next to Dairymen, Incorporated, AMPI. Dairymen, Incorporated has a U.H.T. plan, and rather than cooperating and trying to sell milk in any different ways, they just sit there and fight each other for customers. We do not have the cooperation between the co-ops and the marketing system. Our marketing system is very full throughout the dairy industry.

To me, and this is just speaking for farmers that I know of, we support a milk pricing system like the support price, but go state-by-state. If your state is flooding milk into another state, that is not fair. We see the south and west traditionally

just keep putting more and more milk in Indiana and take our markets from us. We could have higher priced milk if the Wisconsin people wouldn't keep shipping more and more milk to us.

Most people feel like the advertisements have been very, very good for the farmers, and that if we could put more money into advertisement and research and get the cholesterol out of our milk products, the researching done there, the quicker we get this done and we can claim we are cholesterol free, the better off we are going to be.

Also state-by-state, if a state price would be lowered it would be well if they had to take a deduction, and put more into advertising. Not just drop the support price, but to put it into something that will help themselves. Why take a 50-cent drop in milk if you can take the 50 cents and put it into advertising and research. It would be a self-help type program.

Also on 3.5 milk, we got to think about quit paying people for fat. Maybe component pricing is all right, but the consumer doesn't want our fat, and until we get the fat out, why pay more for it. Fat means cholesterol, and it is just an on, and on, and on marketing situation. We are just backing down our markets.

Imports. We really feel like imports are hurting us. 1986 was the largest imports into this country. Why should we sit and take less when we continue to import more? We are importing from countries that are not free market oriented. So why should we give them our free market.

And the last point is the pride that most dairy farmers have, and that is really what puts us against the quotas. We have pride in the fact that we can go out and make money without having to ask for a government hand-out, or telling somebody else they can't do something so I can.

That is about all I have and I really appreciate talking to you.

Mr. Rutherford: Are there any questions? Bob Foster, do you have one?

Mr. Foster: I appreciate your being here and taking the time to testify. As I understand you, you basically feel that a market-driven pricing scheme is best?

Mr. Peters: How else? You know, if our product is not going to the market there is no where else for them to go but a government warehouse. A lot of co-ops produce plants for one purpose only, and that is to make barrel cheese for the government warehouse. That is absolutely wrong.

Mr. Foster: What would you like to see as a long-term dairy policy? As an individual producer, are you looking for stability, are you looking for an opportunity to manage your business or whatever? I am a dairyman as well, so I have my own feelings, but I am also trying to find out what the feelings are of the dairymen around the country.

Mr. Peters: My brother and I invested large sums of money in land in the late 1970s so you know where we are at, and we have the opportunity to go out and make more money to pay our land off. We just need it left open. If we are producing more milk than our markets can hold, we are going to have to have a lower price, or we are going to have to have more consumption. The government warehouse is not what the farmer wants.

The support price lowered state by state or raised state by state and then take the excess money of the states that have overproduction as their problem in those areas. Let them help to a larger extent. If we get a severe overproduction, then I think we ought to take and let all the farmers pay more towards marketing and research.

Mr. Laurie: This commission has put a high emphasis on getting farmer input and, consequently, you farmers get priority when testifying before us. I think you have done an excellent job in presenting your position.

My question is: Concerning your position on imports, are you suggesting import quotas perhaps even more strict than we have now, or do you have another alternative that we have not addressed yet?

Mr. Peters: If our producers would have to take less for their milk, then I think we ought to be able to import less into this country. We should have a trigger price counting that 3.5 milk support price. If we have to lower it, then we should also have to lower the imports. Why should the dairy farmers take less when Switzerland or whoever gets more.

On the imports why can't our producers or plants processing cheeses and stuff that we can't find in any place but Europe. Why shouldn't our markets make our own cheese for our people. Surely if Europe can make it we can make it here. There is nothing in this country we haven't been able to do, but we cannot do it if the warehouse and plants are all just set up for government deals, where the processor puts it in the government warehouse. If it needs to be made into cheese, then our consumers will consume it.

Mr. Horner: You commented about trying to get away from political pressure. When you are talking about regulating the supply of milk from state to state there are a lot of federal orders that cross many state boundaries. Tell this commission how you propose that we should propose for Congress to change these federal orders when we are not even supposed to be assigned to that task. How can you regulate the flow of milk between, for instance, the Dakotas and Minnesota and Wisconsin. How can you separate that milk flow from state lines, and keep it from going to another state?

Mr. Peters: Well, it would have to be like on a federal order. Each state would have to be put for the production to come into the state and the amount of consumption in the state. That would probably be a very difficult task, but surely we can do that if we can go to the moon.

Mr. Foster: I am from the New England area, and Vermont probably exports 90 percent of its milk that is produced. Massachusetts on the other hand with its major metropolitan areas is a large importer of milk. To the extent that Massachusetts has about 185 dairymen, Massachusetts has to get its milk elsewhere. There isn't any resource at least currently situated to provide that milk.

I am curious how a state-by-state situation would take care of that.

Mr. Peters: Well, I don't propose to have all the answers, but still if the dairymen in Massachusetts have to take a lower price because the milk is coming out of Vermont, is that fair to him? Is it fair for we people in southern Indiana to have to

take a lower price on milk because Wisconsin overproduces? No, I think not. I live in southern Indiana conditions. I don't have the land to produce the alfalfas and stuff like they do.

Mr. Rutherford: David, I thank you, very much. Thank you, for taking your time to come up here.

I am going to ask Larry Haywood, to come to the witness table. Larry, I understand you are a dairy farmer from Michigan?

Mr. Haywood: That is right. Thank you for giving me the opportunity to come before you. As you introduced me, I am a dairy farmer from Michigan. I operate an 80-cow operation.

I am here to represent the Independent Cooperative Milk Producers Association. We have put together a supply management plan. Current and past legislation are being fairly effective, but there is very little to prevent the expansion of milk production for the farmer. This trend for expansion was very evident in our cooperative's total milk handled per farm production.

The pricing opportunities of other agricultural commodities keep dairy in a comparatively favorable position and will encourage dairy expansions as a way to meet financial commitments, rather than pork, beef, or poultry.

Our cooperative supports responsible supply management legislation and views it as an increase in marketing freedom. Each farmer could produce as much or as little as he wishes with the forces of the market price as the deciding factor. Supply management will assist in keeping the family-sized farms in business by providing higher prices on a smaller volume of milk.

Supply and management will effectively deal with the question of new technology that increases per cow production. With the supply management a dairyman is free to increase per cow production and move to the business toward greater efficiency while guaranteeing all dairymen such technology won't flood the market with surplus milk.

Our plan uses terminology about parity, only because parity is a concept which is readily understood. Our intent is to cover cost production plus a reasonable profit, rather than get into a debate about parity and/or the need for a better formula for pricing. The question of parity should be addressed as a separate issue.

You will find our supply management plan to be well thought out and to address all major problems associated with the change of marketing and support price philosophy. So the goals of this supply management plan are to: Provide a long term formula for price stability. Identify each producer's share of surplus or shortage. Provide an adequate supply of reasonably priced milk. Allow free movement of milk between regions. Prohibit capitalization of bases, which are ultimately a cost of production. Avoid the weaknesses of the Canadian quota. Lower CCC purchases to near zero, and be market responsive.

This is a two-price system calling for a support price of 75 to 80 percent of parity, for 80 percent to 110 percent of each producer's marketing history with all other production priced

at a nonregulated free market level. The nonregulated price may be at times near zero. All pricing and regulation will take place at the farm. The cooperatives or processors will be dealing with a blend value for all milk handled.

A producer's history of production is a 3-year rolling average including the most current calendar year. All producers may build and maintain a production history. Absolutely no transfers of production history will be allowed.

A producer will lose production history by shipping at the level announced by USDA on a quarterly basis. Producing at a lower level will result in further erosion of history. Producing at a higher level will build history, but may result in a lower price for that portion which is free market milk. With erosion of everyone's history, by shipping at announced levels, the percentage of history allowed will soon reach 100 percent. The erosion of history may seem alarming, but in the long run it will be desirable.

Marketing orders may stay intact although they may become less useful. Five distinct pricing regions are to be identified by a national producer board. The producer board will be formed by one producer-elected dairyman from each state. A federal order support price index will be maintained that will recognize population and transportation differences by states. The index formula will be the weighted average price received for all milk within each state for the most current past 2 calendar years, averaged with prices from the continental 48 states, to develop a mean which will be subtracted from each state's index price. This will result in an amount to be added to or subtracted from parity price to determine each state's support price.

Fluid milk and all other dairy products will be free to move between regions. When a price enhancement above the cost of trucking is generated by the inter-regional movement of milk, 90 percent of that money will be deposited in a national fund to be distributed proportionately to all producers.

When the quarterly free market price for any region exceeds 100 percent of support price, the history percentage for all producers must be raised by no more than 3 percent per quarter. When the quarterly free market price for any region is less than 30 percent of support price, the history percentage for all producers must be lowered by no more than 3 percent per quarter. If regional differences of over 110 percent and under 30 percent coincide, no change is needed.

USDA will be responsible for establishing, recording, and disseminating individual history information to the marketing cooperatives and processors. Monitoring the cooperative's and processor's reporting procedures for accuracy of prices paid and levels of support and free market milk will be a function of the Federal Market Administrator.

The support price will begin at 30 percent of parity index, but be limited to the percentage of production history within the 80- to 110-percent range that meets domestic demand, as determined by USDA and announced quarterly. USDA will be required to announce quarterly projections three quarters in advance. The actual quarterly projections may not be more than 1.5 percent above or 1.5 percent below the projection for that quarter from the prior quarter. USDA will

be required to purchase only the difference between their projected percentage of history and actual program milk used for human consumption.

All federal purchases of dairy products will be at support price or higher for all purposes. All normal federal purchases of dairy products, military or regular social programs, will not be considered as milk purchased to maintain support price. Dairy products purchased for support purposes may never reenter market channels, and must be eventually sold on the world market or be used as foreign aid for famine relief.

Dairy imports may continue at 1986 levels, but those products must be produced under the same sanitary condition and inspection as U.S. products. Increases in imports will be allowed when the USDA history exceeds 110 percent for 12 consecutive months. Those increases must be eliminated if the history percentage drops below 100 percent.

The parity price level will be at the discretion of the Secretary of Agriculture within the 75- to 80-percent range, and updated semiannually. The 80-percent to 110-percent history level will begin at 80 and proceed according to formula, with Secretary of Agriculture discretion within the 3-percent range.

I will be glad to answer any questions you might have about our supply management program, and am deeply appreciative of the opportunity to present this plan to you.

Thank you.

Mr. Rutherford: Thank you, very much.

Are there any questions?

Mr. Laurie: Larry, have you addressed what the impact on the consumer price would be under your program?

Mr. Haywood: It depends a lot on what is used as the parity index. If we use the current parity index, the producer of milk at 80 percent would be somewhere between \$17 and \$18 a hundredweight. I would expect that would impact that consumer cost by as much as 20 percent.

Mr. Laurie: Is there a danger of a snowball effect? Is there a danger of raising the consumer price and consequently lowering the demand which then would have the effect of tightening up the supply, which then would have the effect of raising the consumer price, which then would just keep going round and round until you really throttle your industry back considerably.

Mr. Haywood: I don't think it is as big a danger as some people would lead us to believe. Basically we have a very high nutritional quality product to offer to the consumer, and the consumer is spending a much, much lower percentage of his income than anybody else in the world for food. I really don't expect a major decrease in dairy consumption because of a raise in prices to the farmer.

Mr. Rutherford: Larry, thank you, very much for taking the time to testify. We appreciate it.

Would Carl Conover and John Miller please come forward.

Mr. Conover: We are going to testify separately.

Mr. Rutherford: Okay, Carl, then it is your turn. We appreciate your taking the time to be here.

Mr. Conover: Thank you. I appreciate the chance to be here.

A little background on myself, I spent my early years on a dairy farm in southwestern Ohio, and worked during the 1950's in the Market Administrator's office of the Federal Government program in Ohio, Puget Sound, and Baltimore. In the early 1960's I went to Washington D.C. and spent the next 20 years there in the parity division in Washington D.C., and, of course, the parity division has the responsibility of overseeing the federal milk program. I was the chief of the order enforcement branch for the last 6 years that I was there. I now reside in Shoals, Indiana. My mailing address there is P. O. Box 155, Shoals, Indiana 47581. I will start with my statement now.

The dairy price support program is less effective than it could be in aligning milk production with demand for milk and milk products because of structural faults.

First, the support price level is meaningful if plants selling product to the government actually return at least the support price to producers. Except for the period August 1986 to February 1987 when the whole herd buyout tightened supply, the prices farmers received for manufacturing grade milk were generally below the support price set by USDA. This is readily apparent by a comparison of the Minnesota/Wisconsin series price to the announced support price. The implication of in place production control programs and pay prices at less than supports is that support prices are too high to effectively discourage excess production.

Plants should not benefit from the sale of products to the government at prices that assure a return on investment unless the plant can demonstrate that the dairy farmers are receiving the support price. Without such a requirement one must ask if the support price benefits plants rather than dairy farmers. If the plants had to certify to the government that they had paid the support price to the dairy farmer suppliers, and farmers were made aware that they were entitled to the support price, the system would for the most part be self-policing.

Another area of concern is the interrelationship of the price support and the federal milk order programs. Federal milk order minimum class prices are directly or indirectly based on the Minnesota/Wisconsin price. The M-W price is affected by the level of support prices.

The federal milk order program was initiated to stabilize the supply of milk for the fluid markets. Few programs of the Federal Government have achieved their goals over 45 years as well as the federal milk order program. However in the last 20 years the scope of the federal order pricing has broadened to encompass the grade A milk going into dairy products. The program has achieved equal success by stabilizing markets in that segment of the dairy industry, so much so that the federal orders do little to attract milk to the fluid markets, and in fact here in the Midwest encourage the unavailability of milk to the fluid market and the availability of milk to the plants manufacturing milk products.

Simply put, the plants manufacturing milk products from grade A milk use the funds generated by the fluid milk market, through marketwide pooling, to attract milk to their plants. The federal order blend price that the dairy farmers or their cooperative receive far exceeds the support price, and makes the level of the support price ineffective as a tool to discourage overproduction of milk in this country.

For example, here in Indiana in January of this year a month of relatively short supply, 16 percent of the milk pooled in this market, went into manufactured milk products, butter, powder, and cheese. The blend price the producers supplying this milk received was \$13; the support price was \$11.07. In the same month fluid plants had to get 3.6 million pounds of milk from other markets at considerable expense to meet their needs.

In other markets the price differential would be less extreme, but the implication is the same. The USDA support prices for hard products make manufacturing those products so attractive that the milk is not available to the fluid market, even though the order blend generated by the fluid market is used to attract milk to manufacturing plants. Securing the needed supplies of milk for the fluid market cost the fluid plant operators as much as \$2 extra give-up charges over handling and hauling last fall.

I recently heard testimony at the hearing in Madison, Wisconsin, to amend the Chicago order that the cheese plants in Wisconsin have customarily paid 30 cents over the order blend on an annual average. This was cited as one of the reasons that the Chicago fluid plants must scramble for an adequate supply, and pay exorbitant fees to fill their milk needs. These cheese plants can only do this if there were returns in the cheese market to fund such payments. The price of cheese most of the time rests on the support levels. Therefore the support program is contributing to the major problem facing the federal milk order program, that is the unavailability of milk to fluid plants at order prices and reasonable handling fees.

It is my view that assuring fluid milk plants an adequate supply is the strongest argument for the legality of marketwide pooling. Without that argument the legality of marketwide pooling, which has not been reviewed by the courts since 1939, is subject to serious doubt.

A step towards curing this malady in the dairy programs would be to perform surgery on the support price program and remove cheese as a product the government will floor with support price purchases.

The ineffectiveness of the current support price program in tailoring production to market needs is also related to the declining share of the production that is not fluid grade milk. Last year total production was about 140 billion pounds, 17 billion nonfluid grade and 123 billion grade A. Of the 123 billion pounds grade A, 56 billion went into fluid use and 67 billion into manufacturing of milk products. The price supports theoretically apply directly to the 17 billion pounds of nonfluid grade for which dairy farmers receive less than supports. For the 67 billion grade A, four times the nonfluid grade, the farmers received a marketwide blend price that was much higher.

There are at least three different influences in this melange: (1) the support price is higher than necessary to encourage an adequate supply; (2) the nonfluid grade producers are not receiving the support price; and (3) by far the dominate influence, the price and stability created by the marketwide blends for grade A encourage production beyond needs.

Consideration should be given to integrating the federal order program with the price support program. This could be done by reducing the differential between class 1 and the manufacturing class to the cost of handling grade A and transporting solids or condensed between markets. Make a new class 3 consisting solely of residual, milk used to produce products sold to the government, with a class price that will clear the market and a government purchase price that will allow recovery of production costs.

That completes my prepared statement, and I certainly appreciate the chance to appear before you.

Mr. Rutherford: Thank you, Carl.

Are there any questions? Dick Shade.

Mr. Shade: What percent of the dollar of CCC purchases reaches the producer? I know there are charges made for transportation and all that. Have you ever calculated actually what percent of the dollar a producer receives?

Mr. Conover: I think that would be extremely difficult. Three sources of milk are priced on the federal order and the producers are getting a blend price which is increased by the sharing of the fluid differential in those markets.

I have not done that, is the direct answer to your question, no. That would be a tough figure to come by.

Mr. Horner: Carl, I am glad you appeared before us. We have been hearing throughout the country about the regionalization of any kind of plan that we initiate. I know the federal order system is the prime turning point. Do you have any remarks or do you have any recommendations?

Mr. Conover: Yes, this is my personal view on this. I think for the federal order program to work at all that it has to go to a regional order of some sort. I am not in favor of one order for the entire country unless it had a regional pricing system within it. I think the classification of products should be the same throughout the country. I don't think there is any basis for there being any difference in classification.

You could have an order that had single classifications throughout the country with a pricing structure and say five separate pooling devices within the order that accommodates the regional concept.

Mr. Horner: And another question I have, you are very familiar with the USDA 5 billion pound figure. A lot of testimony throughout the country has said that that is a magical figure that somebody pulled out of the air. Give us your thoughts on that.

Mr. Conover: Well, I think that to align production with demands that you have to have some sort of cushion there. I don't think any program will attune it right down to nothing, and I would expect the 5 billion to be a little higher than necessary.

Mr. Rutherford: Any further questions?

Thank you, very much, Carl.

John Miller, president of Miller Corporation, in Cambridge City, Indiana, will be the next witness.

Mr. Miller: I am John Miller, President of Miller Corporation, Cambridge City, Indiana. Miller Corporation is a dairy and restaurant company that has been in business since 1926.

I am also president of Milk Foundation of Indiana, an organization that represents the independent dairies operating in federal order number 49. Their membership consists of: Maplehurst Dairy, Indianapolis, Indiana; Roberts Dairy, Indianapolis, Indiana; Banquet Dairy, Indianapolis, Indiana; Thompsons Dairy, Seymour, Indiana; Wayne Dairy, Richmond, Indiana; Best Ever Dairy, Anderson, Indiana; Pleasant View Dairy, Highland, Indiana; New Paris Creamery, New Paris, Indiana; and Miller Dairy, Cambridge City, Indiana.

I understand the commission wants to hear testimony concerning current milk price support programs, and possible alternative milk programs, and the effects of new technology on the future structure of the dairy industry. I have three areas that I would like to address.

The economics for continuing the support programs for milk and dairy products, has always been to maintain a steady supply of dairy products, and to provide stability. Many of us believe that there is enough milk available if allocated to the correct facilities. Under the current program we lack the flexibility needed.

As the milk supply shrinks, these shrinkages are taken away from plants that produce all types of dairy products. Some milk is taken away from fluid milk processing plants, some from ice cream plants, some from hard cheese plants, and some from butter and powder plants.

This creates a situation where plants processing milk and milk products for immediate consumption do not have enough milk to meet their needs. These are plants that produce products such as fresh bottled milk, chocolate milk, cultured milk, cottage cheese, yogurt, sour cream, and ice cream.

Plants that produce products to be purchased by the Commodity Credit Corporation, CCC program, normally have a supply of fresh raw milk that they receive daily. The products of concern in this case are plants that produce hard cheese.

Using a hypothetical figure, let's say that each plant loses 10 percent of their milk supply to the whole herd buyout program. One plant is producing product with a daily demand. The other plant is producing product that will be purchased by the Federal Government and placed into storage. We need a way to divert milk from the cheese plants to plants that are producing product for immediate consumption.

The current method used to divert this milk is increasing the price of the milk to the consumer with no benefit to the farmers.

The cheese plants contend they have continuing and ongoing costs that cannot be met unless they have product to process. They have employees to pay, property taxes, support of local communities, and need a return on their invest-

ment. Yet their product is being purchased by the Federal Government and placed in storage at great expense to all taxpayers.

When plants processing milk for immediate consumption make a request to the cheese plants for their milk, the cheese plants demand a "give up" allowance. "Give up" allowances are frequently anywhere from \$1 to \$2.50 a hundredweight, and they have been higher. This procedure causes the price of milk to go up to the consumers and does not benefit the farmer.

The Federal Market Administrator is required to see that all plants have sufficient class I milk. Class I milk does not meet the needs for our immediate consumption requirements. Cottage cheese, yogurt, cultured milk, and ice cream are all in demand on a daily basis. Lost sales in any of these categories cannot be recovered by stocking the shelves heavier when the milk is available.

The solution could be to simply take cheese off of the CCC purchase list, and let it compete in the marketplace the same as ice cream and other manufactured products.

If that is not an acceptable solution, then an alternative would be to require a cheese plant to give up its milk supply to a plant that produces product for immediate consumption when that plant needs the milk without "give up" allowances. Failure to do so would revoke that plant's right to sell to the CCC program.

Another area of concern to me is uniform classification of all products and packages between all federal order areas. Two examples: First, ice cream, ice cream mix, and condensed milk are all classified as class II under order 30 and order 49. These same products are classified as class III in federal orders 40, Michigan, federal order number 33, central Ohio, and federal order number 36, eastern Ohio.

Many times the class II and class III prices are the same or very close. Other times they drift apart. For instance in June and July 1985, there was a 50- and 55-cent difference respectively. The handlers saw a problem. A handler's only recourse was to convince the cooperatives that there was a problem and petition the Department of Agriculture to make a change. We did this and by the spring of 1986, a notice was mailed out advising of the request for a hearing. A hearing was eventually held in Detroit on October 28, 1986.

No decision had come down from the Department of Agriculture by April 1987. Whereupon, I began to put pressure on the Department of Agriculture and requested assistance from both Indiana senators. A decision was then submitted to the Federal Register May 11, 1987. No reconciliation of this inequity has been made to this date. We are told that we can expect a decision maybe by August 1, but that it should not be later than September 1. You can see that this method of correcting inequities is both awkward and cumbersome.

Recently several large fast food and restaurant chains requested that cornstarch be added to cultured buttermilk, and called buttermilk biscuit mix. This had an effect on changing the classification from class I to class III. This topic was discussed at the same Detroit hearing as previously mentioned. Our market administrator attended that hearing. He stated that he did not have to have a hearing to

make a decision, and that he would listen to the facts and make a decision based on what he heard at that hearing. Subsequently he ruled that the buttermilk biscuit mix was to be classified class III under order 49. This provides our customer with a lower priced product and keeps dairy products competitive with nondairy products.

This decision opened up several additional questions. Number one, the basic requirement under most federal orders is that this product be distributed in bulk containers. The definition of a bulk container was discussed at length. One large dairy company is distributing the product over a five- or six-state area in half gallon containers. Others are using 10-quart containers. The question is: To qualify under the bulk sales to food processors, will all market administrators interpret the requirements the same?

It was learned at the Detroit hearing that some federal markets were already classifying the product in class I or class III. The question here is: Will all Federal Market Administrators interpret the ingredient requirements the same?

Up to this time cultured buttermilk was classified as class I in federal order number 49. We make a considerable amount of cultured buttermilk for the fast food industry. This changed a sizable amount of our volume from class I to class III. This brings up my third and final point this morning.

We have a modern well-equipped plant that has been in business for over 60 years. To assure ourselves of class I sales, we operate nine dairy convenience stores, and we also sell to supermarkets and institutions in central Indiana and western Ohio. We find the class I sale market so competitive and so restrictive that it is difficult to add additional volume.

I developed a new condensed milk process that does not have the typical cooked flavor. We literally can sell all of the product that we can manufacture. Under our federal order this product is classified as class II. Yet I cannot get milk to manufacture this product in the quantities that I want except in May through August. I received a letter from my cooperative association last September, stating that they would deliver milk to us for class I processing and an equal amount to that would be available for other processing. Any additional milk received would be on a negotiated price basis.

The milk industry is very competitive and will not tolerate much deviation in raw milk cost.

Any new and innovative products that come on the market will most likely be classified in classes other than class I. By definition class I products are pure unaltered type of products. American ingenuity and imaginations will reclassify products as was done in the buttermilk biscuit mix case.

It appears to me that the only solution is to combine class I and class II products for qualification requirements. Cottage cheese is a demand product and is classified class II. Ice cream can be made from storage powder and butter, but it does not make good sense to manufacture a product into one item, and then turn around and manufacture it into another. Quality and cost are both sacrificed.

Between 20 and 25 percent of the dairy handlers operating in Indiana are having difficulty qualifying under the 50-percent class I utilization requirement. This percentage is apt to increase as new products come onto the market.

I ask that your serious consideration be given to the points I have presented this morning.

Thank you, very much.

Mr. Rutherford: Thank you, John. That is certainly interesting testimony, and you threw out some thoughts and problems which we haven't heard before.

Are there any questions?

Mr. Lauri: You are dealing with a real novice as far as understanding some of the terms and examples you used in your testimony. To help me understand it better, are you saying that there could be a significant increase in the utilization of the total milk supply were it classified properly?

Mr. Miller: Well, I think everybody in the industry is working to increase sales and consumption. What I am saying is that new products that come on the market will be products that are probably combined with something else, and that as these new products come on and increase our consumption, they are not apt to be class I, and that works a real hardship on the smaller dairies to qualify for the 50-percent classification rule.

Now I don't know if that is what you were alluding to. A case in point that I think we need to look at is Indianapolis, Indiana. When the grocery battle took place there I think the records show that there were some 34 grocery stores went out of business in that town. Now that leaves a major grocery chain there that has their own dairy, and no independent is going to sell that product.

That leaves another major grocery in that town, who is a major competitor, and possibly one supplier is going to supply that. Now there are 34 fewer groceries for all the rest of us to compete for. If we want to go in and compete on that one it is going to be on such a level that it is not going to be economically practical. We brag we have the volume but it is not going to do much to the bottom line, and that is going to take place throughout the whole United States, and that is why it is so hard to get an additional class I sales. You can use your imagination and create a new product, you can create ice cream and frozen desserts and go out and compete on a different basis than you can on the fluid basis, and there is no way that we can stay in business and have 50-percent class I sales. We have to combine class I and class II to qualify, and there has to be some program to bring the milk in.

But the key to all this is two words, immediate consumption. Now you know cottage cheese has to be made fresh on a daily basis. You cannot store it up, and we have done everything we can on our conventional program. We used weekend milk and other things, and we are still not getting the milk that we need.

Mr. Shade: Do you have an over order price arrangement?

Mr. Miller: Oh, yes.

Mr. Shade: Has that helped between the handlers and co-ops to work out some of these problems that need to be taken care of more speedily than leaving it to the Federal Order System?

I know in the Chicago market they don't solve all their problems that way, but it helps considerably to take care of issues of milk availability, and that is one of the big problems you mentioned.

Mr. Miller: Yes.

Mr. Shade: If they leave everything to the Federal Order System and don't work between themselves, you have a lot of delays.

Mr. Miller: Well, I would say categorically, yes, it has helped. It is like any program, it is not perfect, and sometimes we don't always agree with all the costs that are associated with that program, but it has worked as a transportation tool to supply milk to the handlers in the Indiana area at an equal price basis, and I think it has been very effective to pick up the dips and peaks that we had in the market there.

Mr. Rutherford: John, concerning the condensed product you were talking about, is that reconstitutable into fluid milk?

Mr. Miller: Well, it could be, but it is primarily used for ice cream manufacturing, and it can be used for pudding, baby food, and things like that, but it is like anything could be reconstituted, but that wouldn't be the benefit.

Mr. Rutherford: That is not the main thrust of the product?

Mr. Miller: No, absolutely not.

Mr. Rutherford: I was just going to say that that would go against the grain of the dairy farmers, if it is replacing class I fluid milk.

Mr. Miller: No.

Mr. Rutherford: Just one thought that I have in going through your testimony. As you see it, there needs to be a program whereby the milk from facilities that sell to the government is ultimately used by the consumer, on an ongoing basis. You see that that is not happening right now because of the advantages you have gone through, as a processor you cannot get milk?

Mr. Miller: That is most certainly correct. I think that it is a privilege for a dairy plant to sell a product to the Federal Government and have them take up their manufacturing facility. I don't know of another industry in the whole world that can go out and build a new plant and be assured of selling 100 percent of the capacity of that plant, and they can sell that at a specific price, the government sets the price.

If they can manufacture a product at a higher price or a little different product and sell it to the consumer, they can do that and that is just a plus for them. Now we have just had the world's largest cheese plant just come on stream in California, partially foreign money. We have foreign money going into cheese plants in Michigan and around, and 60 percent of the investment dollars going into any dairy facility today are going into cheese plants. Now there has to be a reason why this tremendous capacity and investment is being put into cheese plants.

Mr. Rutherford: Any further questions? If not, thank you, very much, John. I appreciate it. You have raised some very interesting items and we will make our best efforts to address them.

Thank you.

Dave Conklin, please come forward. Dave is a dairy farmer from Corunna, Michigan.

Mr. Conklin: I have no real preference on the Dave or David. I have been called worse than that many times.

Good morning. My name is David Conklin, and I am a dairy farmer from Corunna, Michigan. I am the third generation dairy farmer on our farm, and my children represent the fourth generation to be a part of the dairy farm. Our farm is a father/son partnership specializing in dairy with 90 milk cows, raising our own feed, and selling surplus cash crops. This farm is very representative of the Michigan dairy farms.

Thank you, gentlemen, for this opportunity to share some thoughts with you today on the future direction of dairy policy and the dairy industry.

I understand the task of this commission is to surface an appropriate dairy policy in the coming years, examine the impact of new technologies, and consider the effects of these policies on the current farm structure. There is no question that we cannot keep going the way we are, or travel through another 5 years like the past 5 we just experienced. The dairy industry has to have a more stable environment if it is to succeed. My dairy farm, like many other dairy farms, cannot continue to operate in a roller coaster fashion of price supports.

Several decades before the 1980's government policies were to stabilize dairy markets for the benefit of farmers as well as consumers and processors. The dairy price support program helped balance supply and demand for milk, both on a seasonally and year-to-year basis through its purchases and sales of dairy products.

The Act of 1949 provided the Secretary of Agriculture with authority to move the price support level up, down, or maintained at the same level, so as to regulate supply and demand. During the years of 1949 to 1977, Commodity Credit Corporation purchases averaged 2.5 to 5 billion pounds of milk equivalent per year, compared with the 1980-86 average of nearly 13 billion pounds. The surplus production, high government costs, and the painful price cuts of the past 5 years are evidence of the problems that occur when the support program gets out of line with the basic law of supply and demand. Our industry is simply producing more product than commercial outlets will use.

With regard to the current 1985 Farm Bill, I believe it should be able to operate through 1990 without any changes. We cannot continue to float around as we have for nearly a decade. Such a stance will not balance the market or be in the best financial interests of either dairy producers and the U.S. Government. It is quite often hard to fix something down on the farm when you do not know where it is broken. Likewise, it will be hard to repair or adjust the 1985 Farm Bill if it has not yet failed.

Some dairy farmers now indicate that the 1985 Farm Bill is not meeting its objectives. Therefore it is time for a radical change, such as mandatory controls or production quotas. Let me make myself clear on this point. I am not in favor of mandatory controls of any nature. There are no guarantees that even if dairy farmers cut back production that prices would increase, and thus ensure more farmers staying in business. Having mandatory controls or a quota program may not save the government any money, because retail prices may increase to consumers resulting in decreased consumption, thus the possible increase in CCC purchases. The Canadian program has proven that high milk prices decrease consumption, and also Canada has a higher rate of declining farms than we do in the United States.

I would also like to briefly discuss the impact on our dairy industry as a result of generic milk promotion. It took several years to build confidence among dairy farmers that promotion would increase market demand, rather than just take money out of their milk check. The act of 1983 obtained the support of all dairy farmers, but more importantly provided needed funds to conduct both national and state programs. The market growth in the past 3 years is impressive by any standard. There are additional areas that this commission should consider to increase milk promotion funding. These areas include nutrition, research, education, and communication. The dairy industry is headed in the right direction by placing more funding and emphasis in these areas.

Finally, I would like to reiterate my strong belief in a market-oriented dairy policy which will maintain supply in line with demand. This can best be accomplished through the use of a flexible support price program while reducing government expenditures for surplus dairy products. The program should also encourage growth in consumption of milk and dairy products.

This commission has a tremendous task before it in attempting to develop recommendations on dairy policy. I wish you the best of success and thank you for the opportunity to express my thoughts.

Mr. Rutherford: Thank you very much. Are there any questions?

Bob Foster.

Mr. Foster: A couple of questions. Would you have the Secretary given more discretionary authority to move price supports up and down, or would you like to see it based on an economic formula, or a little of both?

Mr. Conklin: Yes, I pick going back to the system of support, giving the Secretary more support authority than he did have, if you could work out the economics to establish guidelines.

Mr. Foster: You spoke of additional funding for promotion. Do you see that in the order of a nickel a hundredweight, or a dime?

Mr. Conklin: I don't have any specific thoughts on the dollar value or anything, but just to continue support of it and additional funding.

Mr. Foster: Additional funding?

Mr. Conklin: Well, additional funding or continue it. The farmer should continue to support it.

Mr. Laurie: Part of our challenge is to address the family farm issue, and we would be remiss if we didn't ask you the question, how would you define a family farm?

Mr. Conklin: Well, there is no written text that you follow on that, so anything that I would come up with, I have no author or authority on it. I feel a definition or an interpretation of a family farm would be one where the major part of the capital and specifically the management is under the control of a specific family, and that family can be extended to sons-in-law and brothers-in-law, but that would be my interpretation of it, with no limit on size, or number of employees, or anything like that.

Mr. Rutherford: Okay, we appreciate that. That is a tough question. Dave, we appreciate your taking the time to testify.

Mr. Conklin: Thank you.

Mr. Rutherford: Ron Smith of the Indiana Farm Bureau will be the next to testify.

Mr. Smith: Mr. Chairman and Mr. Laurie especially when he said he was a novice in regard to Mr. Miller's testimony, I am a novice at testifying too. The transcript which has been prepared for me to present to you today is before you. I am not the one that was originally chosen to testify, but I was asked to take his place, and so I am here today.

I appreciate also the opportunity to come and speak to this commission today, and as my printed text states, I am Ron Smith a dairy farmer, from Grant County, Indiana. I have milked cows almost all my life. I started when I was 6 years old. We are located on the same farm my grandfather established before the turn of the century.

Today I am speaking as a member of the Dairy Advisory Committee representing Indiana Farm Bureau, Incorporated, and the policy which we as an organization represent.

We do recognize the present dairy program is trying to return the dairy industry to a supply/demand balance and support it and hope the dairy industry will give it time to work. We support the dairy price program that will bring supplies and demand to the same level. We favor a system where price supports would be automatically adjusted by the Federal Government. Under the price support program, a floor is given to producers. There should be a limit placed on the amount of CCC purchases with price supports going up and down according to the amount purchased. In general, we support the producer self-help programs and feel that with producers in control of some of these programs it is more likely they will succeed.

We are definitely in agreement with the promotion program we now have, and think it can continue to increase the consumption of milk by the addition of new products, as well as increasing sales on regular fluid milk. Milk standards should be constantly reevaluated to make sure we are putting the best possible product on the market. We recommend working towards marketing milk on a protein or solids, not fat, content basis. We recommend an increase of our current minimum standards for milk to increase food value and improve the taste of fluid milk, especially the low fat milk.

We oppose the importation of casein at its current level into this country. The United States is being used as a dumping ground for foreign countries exporting casein under their subsidy programs. Casein should be reclassified as a food product, and not merely as a chemical as is presently the case. A great share of the casein imported into this country is being used in all sorts of food items, and is avoiding the quality standards in its place of origin that other food production must meet. Every pound of casein that is used in a food item is replacing milk or a milk product that could be used in that item, thus causing government purchases of milk equivalent, under the price support program, to be greater by a like amount.

All right, let's look at what has made our country strong up to now. United States agriculture has been one of the things that has been the envy of the world as U.S. agriculture has flourished in the free enterprise system, and has outproduced other countries with different kinds of government controls. Therefore, we should not be too far away from the free enterprise system that we all cherish as one of our greatest strengths.

That concludes the prepared statement that I have. I will entertain questions if you have any. I admit that some of the comments that have been made and the questions that have been asked are somewhat overwhelming, but I will do the best I can.

Mr. Rutherford: Thank you, Ron.

Are there any questions? Mike Horner.

Mr. Horner: Yes, Ron, in the second paragraph you speak of a limit on volume of CCC purchases under price support. What do you propose we do with the production that is over and above that in any one given period, how would you dispose of that production?

Mr. Smith: As I understand the policy, and you will have to, I am sure that you all know as well as most of the people here, that the policy of the American Farm Bureau Federation is supposed to be a unified policy, well, I won't say unified but a majority of agreement throughout the whole country, even though opinions do vary throughout the country.

Now the policy which is given here is that adopted by the Indiana Farm Bureau, which is in accordance with the American Farm Bureau program. Now the limits placed here, I think the idea only is that on a pound basis saying that under some amount whatever, is required to maintain a price support system. They would say we only need X number of pounds milk equivalent; therefore the price support would be placed at such a level that this is the only amount that would be required to be taken off the market to sustain that.

Mr. Horner: Well, I am not sure whether your proposal here is talking about pounds of milk or dollars taken against the Federal Treasury. But when you make a recommendation like this to this commission, we need to know how you dispose of the surplus commodity that is produced over and above that particular figure.

They are really using the government for a market, and I am trying to understand what you recommend for the program.

because you are speaking for the Farm Bureau, as an organization.

Mr. Smith: I am not really acquainted with what they are speaking of there. I think here we are speaking of the amount of money that is spent. Now beyond that there are certainly other programs, and I guess if I speak of my own opinion, and granted this may not be necessarily exactly what the Farm Bureau's policy is, but I feel that if this were to be implemented it surely would need to be in conjunction with some other system as well.

Mr. Horner: I agree.

Mr. Rutherford: Any other questions?

Mr. Smith: I will make one more comment though that is not in there, and that is I think we all agree that whatever policy is adopted that it needs to be on a long-term basis. Certainly the thing the farmers want is to have some assurance of the fact that whatever is adopted we can depend somewhere down the road that it is not going to be brought up and changed next year, or the next session of Congress, or whatever, but we need to have some assurance that it is an ongoing program.

Mr. Rutherford: Bob Foster.

Mr. Foster: I want to pursue the line of thought that we were discussing previously. Would Indiana Farm Bureau be in favor of another dairy termination program or something like this, once this trigger point was passed?

Mr. Smith: Yes, I think that they have spoken to me that they would be in favor of another dairy termination program. The suggestion that was made earlier that a permanent buyout program be implemented in the program is one which I am sure has not been considered, but I think it would be well considered and perhaps well taken, or I consider that a very good suggestion.

Mr. Rutherford: Ron, we thank you very much. You did a good job.

Would Wayne Wood, dairy farmer from Marlette, Michigan please come forward.

Mr. Wood: My name is Wayne Wood and I live at 1511 Wood Road, Marlette, Michigan. I own and operate a 1,200-acre dairy farm in partnership with my father, brother, and son. Our herd consists of 180 milk cows located in Sanilac County, which is Michigan's leading dairy county with about 32,000 milk cows.

I thank you for the opportunity to share my thoughts on the future of our dairy industry. The task of this commission is of major importance to me and other dairy farmers from my area.

To begin, I believe that the present legislation should be left alone. The dairy industry needs stability rather than another quick fix. During the last 10 years we have seen the impact of short-term changes. The current program has the ability to get milk supply in line with demand, but it first has to have the opportunity to function. Also having additional time will benefit the development of a new dairy policy for 1990.

Our dairy operation today has grown considerably over the past 5 years because of a number of reasons. The obvious

reason is that the support price level has basically given the direction to the producer for expanding production. Local lending institutions in the late 1970's and early 1980's could see a better return on their investments in the dairy industry rather than many other agricultural areas. But yet let me first point out that I am not blaming them for the dairy industry problems. Now on our farm as well as all of you commissioners, we are subject to financial cuts so that the dairy industry can survive. The point that I am making is that as the support level was increased, that sent a signal to dairy producers to expand or increase production. I have made capital expenditures like many dairymen as a result of increased price support. There has to be stability in this industry rather than artificial talk of which direction prices are headed.

Prior to the late 1970's there was considerable stability in the dairy industry. This was the result of the Act of 1949 where the Secretary of Agriculture was authorized to adjust the support program. This was accomplished in that there was a floor under producer prices, providing a good milk supply, and at the same time kept government purchases at a respectable level, even though there were technological changes as drastic as we see today. Due to legislative adjustments, false signals were sent to dairy producers causing excess production and CCC purchases. I really believe that if this past program would not have been changed by Congress, the dairy industry would not be in the turmoil it is today.

I would like to address another area that has affected the results of the 1985 Farm Bill. Dairy production by the producers not in the dairy termination program has increased for two simple reasons: First, to offset the cost of the assessments; secondly, the thought that the next dairy policy will be either a quota program or mandatory controls.

I would like to expand on the latter. Our farm is located about an hour's drive from Canada, so I hear all about the great Canadian quota program. I have relatives that produce milk under the Ontario program. Last summer I went over to Canada and reviewed the Ontario dairy program. After a good hard look at that program I think there are several major disadvantages, which include the following:

First, the increasing cost of quotas could soon price our products out of the marketplace; the second disadvantage is that increased consumer pressure or reaction as a result of higher prices to dairymen would be detrimental; the third disadvantage is that there would be no need for any dairy cooperatives.

One popular misconception is that quotas would provide more stability while at the same time having less dairy farmers leave the dairy industry. The following statistics indicate a 16-percent greater decline of dairy farmers in Canada versus the United States over a 15-year period.

As you can see, in 1970 and 1971 in Canada there were 122,914 producers. In 1975-76 that dropped to 79,833, and in 1985 and 1986 that dropped to 42,325. United States in 1969 had 566,000 producers, in 1974 it had 414,000, and in 1982 it had 278,000.

Lastly, indirectly you would produce milk for the government and have the government mandate all regulations. However, the major problem with a quota program or mandatory controls is that my farm is located in America. I want to be able to live my life and milk 180, or 200, or 80 cows, if and when I feel the desire. My Canadian neighbors are not able to make sound managerial decisions because they have to operate under the strict guidelines of their quota system. America has grown because people have the deep desire and opportunities to excel and because a limitation has not been put on their ability to achieve.

The last area that I would like to address is the area of research and promotion. Certainly the industry is on the right track toward increasing demand through national promotion. Promotional activity and research for product development must be continued and expanded in the future. I hope that any federal dairy policy would contain provisions for whole industry funded promotion and research.

In summary, I believe the future federal dairy policy should be a price support system that keeps supply in line with demand. Milk support price levels should be allowed to adjust so that both the commercial demand and the government needs are met. During the short period of time when the law was amended it has caused more problems. Simply nothing can allow an individual farmer to be more successful than the law of supply and demand.

Thank you for the opportunity to share my thoughts with you.

Mr. Rutherford: Thank you, Wayne.

Are there any questions? Bob Foster.

Mr. Foster: Yes. In order to keep supply and demand in line, are you advocating that price alone would be the determiner, or would you see some sort of program? I know you are talking about continuing the current program, and I guess by that you would be implying that under the current provisions if another termination program is needed then it could be used. I wish you would be a little more specific in that area.

Mr. Wood: Okay. You are right, I indicated a continuation of the current program, but I do believe that price has to be the controller of the supply. I realize that the current program allows for another buyout. I probably would not feel comfortable in taking exception to that part of it; however I would oppose the implementation of that because that is another quick fix that causes an erratic adjustment in the long-term cure. So I would rather see the price, and I believe the price will do that given the opportunity to work.

Mr. Rutherford: Any other questions? Jack Laurie.

Mr. Laurie: Wayne, if there is some way we can put in the termination program that we are in, is it possible then to use the current system or a system like it to maintain that balance so that we won't find ourselves in the situation we were in in the early 1980's?

We have to address the point in time when we all of a sudden have a dramatic increase in production, like we saw in the 1980's. In order to correct that, if you do it entirely with price, you have to have a dramatic decrease in price. All the results of that are not pleasant.

Do you feel that it is possible to maintain that stability so that we don't have that sudden decrease in price or increase in supply without the use of a provisional emergency management program? Can you do it entirely with proper regulation of the support price?

Mr. Wood: I guess my answer to that would be that, yes, I believe that we have come through the dairy termination thing, and we continue to talk about another one or something else that may come along. However we have not given time for the rest of our input to come into balance with it.

My feeling is that whether I am getting \$10 for milk or \$15 for milk, somebody is going to see the opportunity to charge me more for something, whether it be for interest, or whatever, therefore eroding the capital that I have to work with, and I believe we have got to let those things come into line. That continues, I guess, back to my policy of supply and demand.

As long as we talk about the opportunity for someone to get in on another buyout program, or someone to establish a history or a quota, if you will, that would have base, people are going to go after it. I guess probably, I believe this way, but I probably would confess to you that in our own operation we are probably above the level of cows we bought because we are trying to get our history up just in case.

Mr. Rutherford: Shame on you.

Mr. Wood: I'll bet there is somebody else in this room that is doing that too.

Mr. Rutherford: Any more questions? Bob Foster.

Mr. Foster: In your crystal ball, what do you feel the structure of the dairy industry should look like in 10 years?

Mr. Wood: Good.

Mr. Foster: I am thinking more in terms of size, distribution, etc. Do you have any thoughts or comments along that line?

Mr. Wood: I guess I would have to preface it by saying we are taking a look at Michigan, at what kind of agriculture our state is best adapted to handle, and that is one of the things that probably we need to do all over the United States. We, of course, and it has been alluded to this morning, about the transportation thing, moving the products, but you know any other industry in our country one of the first things they look at is the most efficient place they can locate to produce their product. I think that is why we have seen a lot of companies move to Mexico, and we really see that in Michigan, a lot of companies moving out because that wasn't an efficient place to operate.

The dairy industry has traditionally been up in the northern area probably because of the cooler temperatures for the cattle, and it is easier on the cattle. I don't see a whole lot of change in that. I personally think there is going to be some technology that allows us to move our product to the people easier rather than a change in location of the production.

Mr. Rutherford: Wayne, we thank you very much. We appreciate your taking the time to testify.

I am going to deviate a little bit from the tentative schedule. Is Bob Lozier, a dairy farmer, is Bob here?

Mr. Lozier: Yes.

Mr. Rutherford: Bob, would you like to testify now? I would like to accommodate the dairy farmers because the sun is shining and somebody back home probably would like some help. So if you are ready, I would like to ask you, and then I am going to ask Yon Lindborg to testify after that, just so we are prepared.

Mr. Lozier: Good morning.

I am Bob Lozier, a dairy farmer from Warsaw, Indiana. I am a dairy farmer farming with a family corporation with my son. We milk around 60 head of Holstein. We probably farm about 750 crop acres. I am also on the Board of Directors of Associated Milk Producers, and I am here with a prepared statement that you have, and I will refer it to you and I hope you can follow along.

Now at the end of this prepared statement I would like to make a few comments on the promotion as national promotion and also promotion with regards to the Indiana area.

The dairy price support program has worked efficiently and well, providing the stability and price assurance needed to assure an adequate milk supply. The program continues as a sound basic dairy policy. I do feel the addition of a standby supply management element to be used in conjunction with the price support program is necessary to maintain farm income and control government costs.

A major factor in the success of the price support program has been the ability to prevent use of the U.S. market as a dumping ground for world dairy surpluses. Section 22 of the Agricultural Adjustment Act gives the President authority to limit imports of a product, if those imports interfere with or threaten to interfere with the effective operation of a domestic price support program.

This authority has been used to establish a comprehensive system of dairy product import controls. Table 1 details existing Section 22 quotas and imports of these products during 1985 and 1986. While dairy product imports have increased more than five times since the first Section 22 limitations were established in 1953, today's imports are much lower than they would be in the absence of these quotas.

World prices for dairy products do not reflect their value in the country of origin. World markets are characterized by the use of export subsidies, state trading monopolies, and other devices to assist export of a country's products. USDA currently reports the world market price for butter in the range of 34 1/2 to 50 cents per pound, cheddar cheese at .4075 to 54 cents per pound, and nonfat dry milk at 35 to 38 cents per pound. Converting these prices to a farm value for milk, using the yield and processing costs factors CCC uses to set the price support program purchase prices, gives a farm value in the range of \$3.50 to \$4 per hundredweight.

With the world market used for surplus disposal, it is essential that the United States maintain its ability to control imports. U.S. trade negotiators have already announced that Section 22 import limits are on the negotiating table as part of the Uruguay Round of multilateral trade negotiations. While we have been told these limitations will not be surrendered easily, we recall the results of the Tokyo Round in

1979, when the United States agreed to a doubling of cheese quotas in the hope of improved market access for grains, beef, and other commodities.

It is hoped the commission will, in its recommendations, emphasize the need to maintain and to use Section 22 as a basic part of the U.S. dairy and agricultural policy.

Casein is the only major dairy product not covered by import restraints. Last year these imports totaled 229 million pounds, an equivalent to more than 8 billion pounds of skim milk.

Casein is the principal protein in milk. For centuries it has been used in production of industrial products such as adhesives, paints, paper coatings, and plastics. With the growing sophistication of food science, it has been recognized as a valuable protein source, and become an ingredient in many foods, particularly imitation dairy products. In 1980, USDA estimated 48 percent of casein imports were used in production of food and animal feed products where casein replaced domestic milk solids. The largest and fastest growing of these uses was imitation cheese.

There is no commercial casein production in the United States, although test runs by at least one dairy cooperative have demonstrated the ability to make the product. Domestic production was reduced sharply in the mid 1950's and finally halted in the 1960's due to the availability of heavily subsidized imports. World prices for casein, as with other dairy products, are determined by subsidies used by some countries. Casein is produced from skim milk. It takes about the same amount of skim milk to produce a pound of casein as it does to make three pounds of nonfat dry milk. The current price of imported food grade casein is \$1.20 per pound. Three pounds of nonfat dry milk are worth \$2.37 on today's U.S. market. Clearly there will be no commercial production of casein so long as this disparity exists.

The case is made that casein is essential for its unique functional properties. There are uses where casein is essential. USDA reports, however, that with almost half the imports, this is not the case. The unique functional property in these instances is the subsidy-induced price which allows the product to be dumped onto this market, displacing U.S. products and increasing government costs.

The increased government cost occurs as casein displaces U.S. milk solids not fat in products such as imitation cheese, animal feeds, coffee whiteners, and other foods. The displaced solids must be shifted to other uses such as nonfat dry milk, which is sold to CCC under the price support program. Chart 1 shows the relationship between casein imports and CCC purchases of nonfat dry milk. It demonstrates how these imports are defeating efforts to balance supply and demand. In 1984, during the milk diversion program and in 1986 as the dairy termination program was implemented, CCC purchases of nonfat dry milk fell as milk production was curtailed. Rising casein imports, however, maintained those purchases at relatively high levels and represented a growing percentage of purchases.

A 1986 study by USDA estimated that a Section 22 quota equal to 50 percent of average casein imports over the past

5 years, or about 89 million pounds, would reduce government costs under the dairy price support program by \$84 to \$300 million a year.

Legislation has been introduced in the house by Congressman Byron Dorgan of North Dakota, and in the senate by Senator Tom Daschle of South Dakota, directing imposition of such a quota along with a licensing system that would give a priority for available casein supplies to those users where there is no substitute for casein or where substitutes other than domestic milk solids would be used. This would allow all demand in these two categories to be met. It would also concentrate the relief where it is needed, in those areas where casein displaces domestic milk solids.

Since 1983 the dairy price support level has been reduced more than 13 percent, cutting farm income by billions of dollars, forcing thousands of farmers out of business and reducing economic activity in rural areas. All of this has been done in the name of reducing government costs, of balancing supply and demand, and stabilizing the dairy industry.

At the same time imports of casein have increased almost 45 percent. While agricultural and budget policy have focused on forcing dairy farmers out of business, trade policy has concentrated on allowing New Zealand, Australian, Irish, Danish, and even Russian and Iranian dairy farmers to expand their access to the U.S. market.

This commission has an opportunity to help maintain the basic strength of the price support program and to help improve farm income by recommending immediate action limiting these imports.

Thank you, that concludes my prepared remarks.

I would like to make a few remarks in regards to the national dairy promotion and research board. I know you are not totally responsible for what happens there or anything, but I think as the commission you have the opportunity to pass on this information to the Secretary, and that is certainly one of the best programs that has ever been implemented on behalf of dairy farmers.

As we have seen also in the past 3 years, we have increased consumption by 3 percent yearly on an average for a total of over 10 percent. In the past 3 years that is remarkable: it is very easy to see where our dollars are being spent wisely and to our benefit, in improving sales and consumption of our dairy products, even though it be fluid or a marketable product, whether it be in the dessert area, hard cheeses, or whatever.

I think that there is much more that can be done in that area, whether more money is raised eventually or whether we maintain the present 15 cents. For years we have had the regional and unit operations around the country before the national dairy board came on the scene, and they have done a good job in doing generic advertising over the years.

I think there is a very definite need for generic advertising of milk and dairy products, because the industry does not brand advertise all cheeses, all powders, and all milk. There is always that product out there that has to be advertised, and I think the dairy farmer and the dairy industry has that

responsibility to generically advertise and promote and do research for his product especially the generic way.

I think there is definite need for a consolidation of the total promotional and research efforts. I know that in the process it hits snags ever so often, it gets moving along and then all at once it gets set back. I guess I know all about that. I just was chairman or president of Milk Promotional Services of Indiana when we consolidated all the promotion efforts in Indiana. I know what the problems are, and it is not easy, you will lay awake a few nights to try to figure out how to do things, and you want to do it the right way, when you are working with people who have been established for years it is not easy to move them around, but I say it has to be done. I think we are not talking about saving dollars but an extension of those dollars where everything is consolidated, and I think that is basically one of the best things that has happened to the industry in a long time, and all dairy farmers in the United States now contribute their 15 cents to the national program.

Thank you.

Mr. Rutherford: Thank you, Bob.

Are there any questions?

Mr. Laurie: I agree with your theory that importing casein that was produced because of a heavily subsidized program in somebody else's country, and dumping it is wrong, but I need some help.

If we were to limit further the amount of casein that is available in this country, where are the people who are using it going to get it? Would they go to our current milk supply and get that casein, would that stimulate the development of the manufacturing process for casein in our country? If so, how would it be stimulated when it would pay only \$1.20 compared to the present price of \$2.37?

Mr. Lozier: You mean how would it stimulate the producers in other countries?

Mr. Laurie: No, how would it stimulate our market to sell to a user that would only pay \$1.20 for what we can now get \$2.37 for?

Mr. Lozier: I am sure there would be questions and debate about how are you going to price that in the marketplace, you know, because there would be additional costs there. I don't know how you can address it, but to pass it on somehow or another. I am sure that casein, we know that it is a cheaper product, even though it is subsidized, it is a cheaper product that is available for the industry to use in their manufacturing, and I guess that is the way this country works. You know, you produce a product at the most efficient cost, I am sure of that, but it is self-defeating to the dairy industry and to the government to continue this type program, we need this product and at a subsidized level to be used at a cheaper cost to these manufacturers, and still at the same time eliminating our market for the nonfat dry milk, and having the CCC program to have to purchase it then.

I am assuming that the only way that could happen is the price would have to be passed on.

Mr. Laurie: If we were to say to the people who are using casein, now you are going to have to pay \$2.37 for what you have been getting for \$1.20, and you pass your cost on to your consumer. Is there opportunity for them to substitute something else instead of casein, that they may be able to get for say \$2?

Mr. Lozier: I would assume with the ingenuity of the world somehow somebody would come up with something. I don't have the answer to that, but I am sure that is the way business works; you know, if there is another alternative they will try it, but I guess the situation we are in where we are letting subsidized casein come into this country where we are faced with trying to eliminate dairy surpluses is just self-defeating as I see it.

Mr. Rutherford: Any further questions?

If not, Bob, thank you very much. I appreciate it.

Yon Lindborg of Union Mills, Indiana, please come forward.

Mr. Lindborg: Good morning, Gentlemen, and I thank you for the opportunity to appear before you.

I just want to try to run through a thumbnail sketch of what my perspectives on the milk market and my thoughts about the future.

As we look at the past we do have the milk price support program set up in the late 1940's to ensure the adequate supply of the fledgling industry, an industry that was growing as all of agriculture was, and seeking to provide some stimulus, a long-term stimulus and stable prices for producers with a very perishable product. We see that price support program doing that, and in that whole process the government expense was minimal.

The problems associated with it was the drastic changes in the economy that was slow to respond to. Again this may be an opinion but I think it was subject a little bit to political maneuvering and then there really was no good way to adjust to oversupply without action from congress, which at times we see its action is very deliberate and often slow.

We get to the period of the late 1970's and early 1980's, and we see a significant balance. What happened there? Well, I think that what happened was that there was significant changes not only in the agricultural economy but in all our economy, and those significant changes, just a few of them, are related to the when the economy pretty much caught up with the inflationary cycle through the economy deflating.

In agriculture we see that resulting in a significant erosion of assets. With that deflation then the value of the dollar went from a weak dollar to a strong dollar, and the resulting exports, and not only do we see on the farm an erosion of assets, but an erosion of market, and then we see the resulting change from the adequate agricultural income to a very marginal agricultural income, and I think the thing that summarizes what happened then in the dairy industry is that there were a lack of alternatives in agriculture, so that those people who had any inkling at all to try to stay on the farm and any inkling at all about getting milk from that cow, say this is one place where we can survive, this is one place

where at least our income will be guaranteed, and the result was very clear—the excess supply and government expense that we had never known before.

A review of the figures, the average cost of government purchases from 1950 to 1979 was about 302 million. The cost in 1980 to 1985 was 1.9 billion. So just to illustrate that fact.

Where do we go from there? Again our goals are to maintain a stable price, and we realize now that one of our goals needs to be a limit of government expense, that the government cannot continue to operate as it has in the past.

We want to encourage efficient production. We realize that any commodity is most available to consumers and to all the Nation that is produced most efficiently and of high quality, and I think we want to encourage producer responsibility for marketing, and here we have seen a real growth not only in the dairy industry but in all of agriculture, as we see a responsibility for markets become an awareness in every farmer's mind.¹

What alternatives do we have? Well, we can set the milk support price relative to market needs, and I might add to that with a cap on government purchases. Again the advantage to that is it sends a clear signal to producers, and I think we should never, never forget how creative, maybe not ourselves but how creative each farmer is in seeking that best return for his income, but the beautiful example is we see a government policy set up with pick certificates, and then we see farmers using the system to create 5, and 10, and 15, and 20 percent returns on that kind of thing. So let's never underestimate the creativity of farmers to seek out that place where they can make a return, where they can make a buck.

We want a program that encourages efficient production. We may never go the route that would put us in a state where we are subsidizing something very unnaturally, and we too are affected by that as we think about the casein imports, although possibly some of the alternatives in some of these other countries are a little less than what we have here in the United States.

And again we want a policy that would encourage producer responsibility for marketing and limit government expense. The disadvantages of such a program, and it may take producers awhile to adjust, it may take them awhile to believe that we are serious about limiting government expense. When you go, well, from 1978 and 1979 to the period of time where we have where government expense was no concern and there seemed to be no limit on the market, it may take awhile to convince producers that there is a limit, and that the market they are producing for is no longer an artificial one that can remove 12 to 13 million pounds a year with a market that will only remove a certain amount of pounds of milk.

And there may be a decrease in the number of producers and that certainly is not a pleasant thing for anyone as you read some of the stories, and yet let's never forget that those people have other alternatives in this great country, and possibly this economic shakeup they go through may put

them in a situation where they are more successful and more productive and more efficient than they were before.

The other alternative set before you is supply management or a two-tier pricing program, a pricing that involves bases and quotas. The advantage again sends a clear signal to producers on how much you may produce, and does limit government costs, and here I think is the essence of my concern today which is what are the disadvantages of that program, and certainly let us never get to thinking that government is efficient. Let us never assume that more bureaucrats are going to add efficiency.

And we have some very significant regional differences in this country, and we see those very clearly with the diversion program and the dairy termination program where those people with other alternatives chose those alternatives, and so we see a southeast very deficit of milk, and other areas of the country too. I think even in the northeast too. I think it is very marginal in their supply and demand situation, but with those regional differences how can we say you can only produce so much milk there.

Well, those people strike for that independence just like each of us, independence of food production in that area. Now whether that is well fostered or right, that certainly is called a question as we think about the whole efficiency thing, but certainly we need not deny them that opportunity.

Problems of new producers. How do we say to that new young couple just recently graduated from a university, you are only going to be able to get in the market at a price equal to 75 percent or 80 percent production, because we have this oversupply, if we are really going to weed out people even before we give them the opportunity to demonstrate their ability to produce, and produce efficiently.

Again less producer responsibility for marketing, and I think this is such a critical one, and we have seen the growth and seen the awakening in the dairy industry, of corn growers, soybean producers, and the cotton industry becoming much more market oriented and displaying their creativity.

And then bases. I think the whole thing that most concerns me about bases is once a person has acquired that ability to produce they no longer need to be efficient. I think that is one that concerns me very, very greatly. No matter who controls them, how can we ever get to a point in this country where someone other than that farmer in his own ingenuity and in his own creativity decides what he will do, as opposed to mandated from above.

We think about the communist system and sometimes it seems very attractive to have some very wise and knowledgeable group of people sitting together and saying, you know, now your gifts and abilities apply in this area and you ought to go in that direction, and you ought to do this kind of thing, and yet time and time again we have seen that people left to themselves with the opportunity for gain and to improve their well-being can come up with creativity and ideas to produce and to produce efficiently and sufficiently greater than we could ever imagine, even in spite of all these inefficiencies as people go directions and businesses fail.

So again I just summarize: the dairy industry was young when this whole program was set up, and it needed stability.

I think it still needs stability under the price support program. Let's never relieve that producer of his responsibility for marketing, and his responsibility for efficiency.

Thank you for your time.

Mr. Rutherford: Thank you.

Are there any questions? Bob Foster.

Mr. Foster: You mentioned a cap on government purchases. How would you perceive that working?

Mr. Lindborg: I think the present program is probably as adequate as we can have right now as we get experience with this and say that farmers this is the limit, and if the limit continues to be overshot or overproduced, this will be the result then, and you have to continue to send that strong signal, and I think with all the reporting and ways that we have of measuring projected crop production, certainly that kind of system will come up that producers can very clearly take advantage of that as we try to measure projected milk production.

Mr. Horner: You are proposing putting a cap on government purchases?

Mr. Lindborg: Yes.

Mr. Horner: What would you do with those plants in the Nation that have excess over and above that they can sell on the market? What would you do with their production?

Mr. Lindborg: Well, again I think the cap on government expenses is probably too limited, but I think we need to continue to send the signal with the present program that this is the limit on government expenses, and if it continues to be overproduced the price is going to continue to suffer, and certainly there are people a lot more creative than I as to how to determine what do you do with excess capacity or excess production, and possibly some of that excess production can even be projected in, as we already come up with the wisdom to know that 5 billion pounds is what the government needs, and something like that I am sure will evolve.

Mr. Horner: We are sending the signal right now that we are going to get a price reduction in October and one again in January, and yet our production forecast is not showing that we are going to reduce it by price alone. I have great concern. This commission is saddled with coming up with a plan, and many suggest doing it by price alone. We don't see that happening. I was just wondering what your thoughts were.

Mr. Lindborg: Well, I wonder if that signal has been very clear to this point, as we have seen even from my own co-op a very strong push for supply management, for bases, and even Congress continuing to go back and forth. Is this really what we want to do? And I really haven't seen much resolve from Congress in the past, I think, as we look at the attempt at the diversion program which worked, and an attempt at a termination program which appears to again have done something, but we need to send a strong long-term signal, and certainly that is no small thing coming up with exactly what that plan is, and yet certainly you gentlemen with the amount of testimony and wisdom that you have will be very adequately supplied.

Mr. Horner: Well, I don't believe Congress will touch the dairy title of the 1985 Farm Bill, because they are waiting to see what this commission will recommend. This is why we are asking technical questions. Don't think I am trying to rack your mind to keep you here a long time, but we really do need to know what the dairy farmers are thinking.

Mr. Lindborg: And yet you can't ever forget that the system worked from 1948 or 1949 whenever it was that the program began. Until 1978 or 1979 the system worked, and government expenses were minimal, and production was in line, and there was an adequate supply, and were it not for these significant changes that I think are fairly well documented in the lack of alternatives in agriculture that it may have continued to work, and then I think there was some readjustment of that price support in late 1978 and 1979 that sent a very wrong signal to the producers, and if we make clear our resolve I think it will work.

Mr. Shade: You made a very fine presentation. Do you advocate a cap on production?

Mr. Lindborg: No.

Mr. Shade: You say you favor a cap on CCC purchases. Well, by having a cap on purchases, would the effect be that they would reduce some of their producers, eliminate some, or tell them to reduce the production? Wouldn't it in effect be immediately a cap right back to producers, because if a plant didn't have a market and he couldn't sell it to CCC, what is his alternative? He is going to cut off some of his supply, isn't he?

Mr. Lindborg: Right, and then that puts that producer at the place exactly where he needs to be, and where we as dairy farmers have only very recently been, and says where can I get a market, and what can I do, how much can I spend, and you think about 15 cents per hundredweight, a little more than 1 percent of the price that we receive from our milk are we using to develop and promote a market, and I am not acquainted with how much business generally advocates for market, promotion, and research, but I can't help but think that it is much greater than a little over 1 percent. And I agree that it is going to take time for us in the industry to mature and develop to this point, and we certainly can benefit from the government's stability that will come during this transition time, but let's never relinquish that responsibility for efficient production and for our market.

Mr. Laurie: You feel that, if we have through the course of the termination program repented for the sins that we committed during the first part of the 1980's, and we bring this supply/demand balance together, then we can go back to relative stability. Is that what I heard you say?

We have put ourselves out of position, we paid the price through the termination program, and we came back down and got ourselves in position, and now you feel that if we go back to where we were prior to 1977 that we can then maintain stability, is that right?

Mr. Lindborg: I certainly think that merits sincere consideration and thought, and as I have tried to come up with alternatives I think that seems to me to be at least disworked, and the other thing I can't help but think that we would not have had, well, not so much a dairy termination program, a

dairy buyout program, because we as producers paid for the termination program, for the diversion program, but I cannot help but think that Congress didn't sense a bit of responsibility for that imbalance, and because of their slowness to respond they sent the wrong signal and people invested and money was borrowed and operations were enlarged, and I can't help but think that they felt a sense of responsibility for sending that wrong signal, and therefore were willing to give the amount of money that I guess is 1.2 billion, which is their portion of the dairy termination program.

Mr. Laurie: We have heard from farmers with as few as 15 head and with as many as 10,000. I would like to ask you to tell us briefly about your operation?

Mr. Lindborg: My father and I farm together. We have 240 cows and farm in northwest Indiana, and farm more ground than what we should, but that is part of the situation right now, and I have been with my father in partnership about 12 years. I graduated from Purdue University with a degree in veterinarian medicine and pursued that for a short period of time and then wanted to get more involved with the whole aspect of the cows, as opposed to just treatment, and I milked them this morning.

Mr. Rutherford: Thank you, John, that was a very good overview of the program's past, present, and some good ideas for the future. We appreciate it.

Phil, you have asked to have a minute to make some remarks, so why don't you come forward. I understand you are a dairy farmer and you want to get back and start making hay.

Mr. Hurley: That is right. I am from northern Indiana and I live just 3 miles west of here. We have got about 500 acres, maybe 600, and we milk about 125 head. We got 150 head.

My main concern as I sat here and listened is how are we going to keep the farm for the kids? You know, at my age I am about done and if you put quotas on, you put a ceiling on this thing. I think about the best illustration is autos. Autos have doubled in the last 2 or 3 years, and the cost is terrific, and as soon as this area gets over with and our money is wearing out we are going to be buying new machinery and you are going to have to be doing something, and it is a problem because, if you put a top on this thing and your quota out here, there is no way you can continue, even hanging on to the farm with the taxes going higher, and our own governor just raised taxes for our school system of \$800 million.

They take more out of every milk check, and AMPI is going to take out 30 cents the beginning of July and send it to the Wisconsin area to subsidize those guys. Now I agree if Allen Dairy here in Fort Wayne wants to buy a load of milk that is their business, but we shouldn't have to subsidize out-of-state milk. There are not enough dairymen and milk being produced in Indiana to feed its people, and it has to be shipped in.

I can't see, I agree with the first dairyman, I can't see us subsidizing out-of-state milk, and it is like, you know, our first buyout we paid \$1.4 billion into that pot. The buyout cost us \$750 million. Where is the other \$800 million at?

The first 3 months that they deducted out of our check for advertising was \$55 million, and then they decided not to take it out again. We paid, I figure, the \$55 million was 3 months, \$220 million on advertising they take out a year. They figure they have taken in \$123 million this year to project it. The biggest part of that money like 68 or 69 percent of it is going into cheese advertising, the largest percentage of advertising money, and it just shows where our money goes.

You know, if we take in 55 million and the biggest percent of it goes for advertising for cheese at 68 million, that isn't, in other words if you add another 40 percent on to that, that doesn't add up to 220 million, and where has that money gone, see what I am getting at?

Then you talk about transferring, AMPI operated, we have a local cheese plant over in Warsaw, and Morning Glory just took it, and AMPI is connected. Okay, Wisconsin really took over AMPI and they dumped everybody. Our local guy in Indiana got fired because he wouldn't send 30 cents to subsidize the Wisconsin guys, and the Wisconsin manager is setting in his job and he came up and talked to me, because I quit the AMPI because of the 30 cents, and I asked him what he was going to do with the plant at Warsaw, that is a manufacturer of powder cheese, and they were going in the red for AMPI for 3 or 4 years, and we were going to close it up, but I asked him, how you going to operate that plant profitably, and he said he was going to operate it as a transfer station, and that transfer station is government money. That is where you come in and dump a load, and load it back out the same pipe and go down the road with a load of milk, really the same load of milk, and the government pays the shipment in, pays the cost of the plant, and pays the cost of shipment out.

Now that is what is going on with our dairy industry. I would just like to know how I can hang on the farm for the kids. We are going to set up our own Indiana order here, and I think that us dairymen had better kind of take things under our own control really, because I think maybe it is getting out of hand here.

Mr. Rutherford: You raised some very good questions, and they are probably impossible for this group to deal with. There are some internal problems and regional problems, and I think you need to talk with somebody who is involved in promotion, which I am not. I am just commenting, but again I think what you are reflecting is that there are a lot of regional problems.

Mr. Hurley: Well, the point I am making, you are going to decide what they are going to do with our money. The USDA is a lot for the dairy program. What is the outlook for the dairy program?

Mr. Rutherford: What the type of dairy policy is?

Mr. Hurley: Yes, the producers brag about the fact that 15 cents is 1 percent less than the total income of milk going to advertising, right? You just sat there and said that. Okay, right here are the figures though. Where is it at? If it is going in there and you are setting the policy for that, for this type of, you know, where is it going is what I would like to know, and I was just putting the question into your mind. I am not

asking you to answer where it is going. You know, if you are going to set the policy, this all comes out of our farm program is what I am trying to say. This transfer station comes out of the USDA's pocket just as if they pay the dairyman not to produce milk, is what I am trying to say.

Mr. Rutherford: Yes, and it affects the overall national dairy program. I appreciate what you are saying and these questions have to be addressed. As I say, I am not sure if anyone is capable of responding.

Mr. Foster: I am not sure that I am capable, but I do think there is some confusion here. A nickel of it is going to national and 10 cents of it is going back to the state and regional programs. That is the part that is missing from your figures.

Mr. Hurley: I am just concerned about how I am going to keep my dairy farm.

Mr. Rutherford: Well, I agree, and we are all with you. The question you raised relative to the facility concerns me and that is something that I want to look at, because I am not quite sure I understand how it works.

Thank you very much.

I would like to ask Morris Van Gorden, and John Zumberge to come forward.

Mr. Van Gorden: I am Morris Van Gorden, a dairy farmer from Hamilton, Ohio, in partnership with my sons. We milk about 180 cows. John Zumberge will speak for himself. We are both on the Ohio Farm Bureau Board. We are speaking for the dairymen on the Farm Bureau Board, and the Dairy Advisory Committee.

We are not equipped to make specific recommendations to this commission on dairy policy. Instead we would like to give some general observations and raise some questions about a total dairy program.

A large majority of dairymen in Ohio believe it will be necessary to continue in the foreseeable future a dairy price support or dairy farm income support program. Dairymen in the state were in favor of the whole herd buyout and would support another such program in the future as a means of reducing or controlling supply.

They would also accept a reasonable assessment on all milk produced as a means of dairymen paying a portion of the costs. Our Dairy Advisory Committee suggests that any future whole herd buyout be directed to those regions that are producing the greatest surpluses.

There is general concern that the probable 50-cent drop in support price on January 1st, following a certain 25 cent drop on October 1st, will put several dairymen below the line of profit and loss calculations. There should be considerable attention given to the development of a new or different price support program for dairymen. It is difficult to defend a program to permit some within the industry to sell all or most all of their excess to the government.

A dairymen income support program has merit and a price support program geared to the producers so that each producer decides whether or not he or she wants to participate,

and so if needed set aside a diversion program to be implemented as a condition of participating in the program should be considered.

Mandatory supply control. Even though we believe our members are split on this issue, generally speaking we do know that the word "mandatory" is a bad word in Ohio agriculture. Supply control, however, is generally supported, if it is coupled with the degree of being voluntary on the part of the producer.

It is difficult to develop a national dairy program price or income support that is fair and equitable to dairymen, consumers, and the taxpayers, when there is such a wide spread between income to dairymen and the size of their operation, and the production per cow, and the cost of production. The same is true between states and regions.

I recognize that the same problem is obvious in the support program for feed grain, wheat, cotton, and so forth. So this is not the first time that this problem has been identified.

We usually address this issue by overusing the mathematical calculation called an average. You know all the stories and examples and the problems with averages, so I won't repeat them here. I would, however, use the reference that a company that can put a man on the moon should be able to find a different and better approach to addressing the issues than gearing everything to the average.

Maybe the reason Ohio doesn't like the word average when we talk about dairy policy is that Ohio's average production per cow is 405 pounds below the national average. The national average is 13,293 and Ohio's is 12,888. That is for all cows.

Dairy promotion and advertising. The dairy farmers of Ohio are very supportive of the dairy promotion, advertising, and research program. We don't know individually whether we are supportive because it feels good or because we see evidence that we are getting back 25 cents for each 15 cents invested, because of the greater sales and improved price, or reduced cost of production.

Federal tax reform act. There are those that suggest that the new tax law could have more to do with curbing milk production during the next decade than the herd buyout. I do not have an opinion on this possibility, but it would be well for the commission to try and project the impact of the tax reform act on milk production.

If when the commission makes its report the tax law has not been amended or the IRS has not changed its rule to permit dairymen to expense the cost associated with raising a calf without having to likewise change their depreciation schedule on their equipment, we would recommend that this be included in the report.

As members of the board of trustees of a multicommodity organization, as well as being active in dairy related organizations, we may be more sensitive than some to the importance of any government program not impacting negatively on other commodities.

This is a very touchy subject, but we dairymen should always keep this in mind as we pursue or advocate a national dairy program.

That is all.

(Chairman Rutherford departed the hearing.)

Mr. Zumberge: Mr. Chairman, and Committee members:

As Morrie said I am also a member of the Ohio Farm Bureau Board. We are dairy people. My district is Mercer, Auglaize, Shelby, and Logan counties in Ohio. That is a district and that is a pocket of what you mentioned awhile ago, family farm dairymen. Most of those dairymen, or most of those family farms, consist of mother and father, and the kids milking anywhere up to 40, 50, or 60 cows, and when it gets over that then we start getting into two families and that is mother and father, and one of the sons, and so on. We have a few corporations, close family corporations, where just those are in the corporation, and you got to go with maybe 40 or 50 cows to a family, and basically that is what we have in that area.

Most of the people that I have talked to, by going to different meetings and so on, most of them were strongly in support of a dairy promotion program. They realize that if we are going to produce the milk we ought to help promote and get it sold. They feel that there should be a continued price support of some sort and have that coupled with maybe a whole herd buyout, and maybe this whole herd buyout should be by districts where the big supply of milk would be, and they feel that they would help support that buyout.

A big percentage of them, or an awful large percentage of them, are absolutely opposed to mandatory supply controls. They have a concern of how are the young people going to get started in dairying if they have to go by quota and by the cows, farm, or whatever. It is almost an impossibility they feel.

I, myself, I grew up in a live-and-let-live atmosphere. I have a lot of concern about the ungodly big operations where they are in the thousands of cows in a herd. I don't know what can be done about it, but this is a free society, a free enterprise system. I doubt if anything can ever happen on it, but that really bothers me.

If there is to be some sort of a two-price system, I don't know, but maybe it needs to be looked into.

I feel that is about all I have to say.

Mr. Laurie: Okay, thank you.

Are there any questions from the commission members?
Bob Foster:

Mr. Foster: Morris, in your comments you were talking about an income support type program. That would be quite a bit in contrast with the current program, wouldn't it?

Mr. Van Gorden: Yes.

Mr. Foster: Could you be a little more specific as to some of the types of programs? Are you talking about a target pricing situation, or would you rather not be specific on that?

Mr. Van Gorden: Well, I probably can't get too specific, but I guess I feel that when we are, you know, when we can't, I don't want to have bases, but we have got, and I am not fully in agreement with letting the price of milk seek out the level

of who stays in and who doesn't, because I just am not happy with the fact that you get the price of milk so low that only those that have a buck or two in the bank can survive, and the rest of us go by the wayside.

I do feel that if we could have some kind of a two-price system or come up with a different name for it, that you get the top dollar for what you have been producing and then over that why then let's go some other direction with it.

Mr. Horner: You need to clarify that a little bit further. How would you propose that all the producers share in that surplus? Let's say we had an 80-percent surplus in the last quarter. Would you propose that all people share that 80-percent as we dispose of it?

Mr. Van Gorden: Yes.

Mr. Horner: What would you do with the southeast market right now?

Mr. Van Gorden: Well, you know, I hear a lot of southeastern saying, you know, gosh, we haul the milk in by the truckload, but what is good for the goose is good for the gander, I guess, and so I think we are all going to have to share in it, you know, in the oversurplus.

Mr. Horner: You would propose then we do it by lowering the price and using it for a market other than domestic needs?

Mr. Van Gorden: Well, yes. Okay, we need to find some other in the research area, in the promotion board, and I am sure they are working on some of these things, but there have to be some other areas out there that we can do something with this product that is over and above putting it in powder and, you know, just storing it, and so that 8 percent, you know, if something else that we can sell that you are not going to get the top price.

Mr. Horner: As we go throughout the country and hear testimony, some people tell us that everybody needs to share in the surplus, others tell us that only those people that are producing in the surplus areas should bear the burden. Can you understand the difficult position that the Commission is in?

Mr. Van Gorden: I see where you are at, and there have been several pointed out here today, you know, angry with Wisconsin for producing so much milk, but I don't go along with that. Those people up there have got to live just the same as I do, and I am in a part of Ohio, I am not like John is where we are urbanized. I am in the same shape that Brubaker is, only he is about 10 years from it, closer than what I am seeing. So we don't have very much milk in our little neck of Ohio. So that doesn't bother me any. I am willing to have them haul it in from some place that does produce it.

Mr. Horner: I am sorry, I have been trying to pick you for answers, but the longer you talk the more questions you are going to get asked because you bring up points that need clarification. I better stop at that.

Mr. Van Gorden: Well, we would like to thank you for the opportunity to be here, and I think it is very valuable on the part of the total program.

Mr. Laurie: Are there any more questions?

Well, thank you both, we appreciate your appearing before the commission.

One of the ways to establish yourself in a leadership position is to make a first action that you take a recess for lunch, and that is exactly what we are going to do right now. We will be back here at 1:45 p.m.

(The hearing recessed for the luncheon recess at 12:15 noon and resumed at 1:45 p.m.)

Mr. Laurie: The hearing will come to order.

The first witness we have this afternoon is Max McMichael of Ohio Farmers Union, Spencerville, Ohio.

Max, we are glad to have you with us this afternoon.

Mr. McMichael: Thank you.

Good afternoon, Gentlemen.

Last week I received a phone call from Charley Nash asking me to come over here and present the dairy policy that we have for Ohio. At this time I would like to present this, and then I will go into detail on my own home farm.

Many improvements can be made in the dairy program, and this was acted on in January of 1987 in our state meeting. Many improvements can be made in the dairy program to further strengthen and simplify this program. To further support the supply and management program we urge Congress to establish legislation requiring a national milk base quota system to immediately follow the whole herd buyout program. We recommend a quota system designed by and subject to approval of dairy producers nationwide.

We ask that the local ASCS administrate this program with first priority to beginning family farmers, when existing bases become available and that all quotes receive immediate adjustment upward as local market demands greater supply. Program taxes or costs should not be applied to any producer until he has established a base to become eligible for the program. Future improvements should not reward those who do not choose to participate in the program.

We believe in present requirements that reconstituted or filled milk be priced on the classified pricing system which has worked to benefit both producers and consumers. Therefore we object to any change in this system which would tend to provide an economic incentive for handlers to push the reconstituted or substitute products. Low-income consumers would not be helped by the availability of products masquerading as milk, but of doubtful and inferior nutrition.

Furthermore we object to any change which could undermine the classified pricing system and threaten the very heart of the federal milk order.

Some of you who are familiar with the Hart and Greer part of the program proposal currently in Congress will recognize some similarities between the Ohio Farmers Union recommendations and the proposal put forth by Senators Hart and Greer. For that reason the Ohio Farmers Union has endorsed the principles of the Hart and Greer found in Farm Act H.R. 1425 and S.B. 658.

I will ask you this question: Have you been presented with the National Farmers Union policy, has it been presented to you before?

Mr. Laurie: It has. In Hudson, Wisconsin.

Mr. McMichael: They sent this to me and, you know, if you have already been presented this then I don't see much reason to present it to you again, is this all right?

Mr. Laurie: That is fine. Let me suggest that if you have personal views, we would be very interested in those as well.

Mr. McMichael: Okay. At this time I was asked to really present what came before our meeting in January, and which I have presented to you at this time from the Ohio Farmers Union.

We milk approximately 100 cows. We back in the late 1970's and early 1980's and 1981 we milked up around 130 cows. We scaled back and now we have been maintaining approximately 100 cows in our dairy operation. We currently raise all our own feed in our area, which is primarily the way most of the dairies in our area of Ohio operates, and we rely on our milk sales as our principal income for our farm operations.

We raise soybeans which in turn as we market soybeans also offsets our protein costs that we buy. So primarily we are kind of self-contained because of our production of roughages and feeds and so forth in our operations.

Over the past 5 years as we all know we have had a lot of dairy products on the market, and it seems like the buildup has been there, but in 1981 I took the average of our pre-price base in our area and I am carrying this through to 1981. Our average for the whole year was like 13.66 in 1981, and in 1982 we got an average of 13.55, in 1983 we dropped to 12.89, in 1984 it was 12.81, in 1985 it was 12.55, in 1986 we were 11.87. Now this does not have any takeout for our hauling and our marketing services. This is our base price.

As we look at this over the last 5 years in our home operation, fellows, it is getting tough. We are down there about \$2, and a 100-cow herd, you know, that is costing us right now approximately \$100 a day for us in production, in our gross sales.

It has come to the point it is tough to replace equipment, our parts are expensive, we run miles and miles to get parts any more. We don't have the dealers in the area any more to go to. It seems though you got to have a reserve piece of equipment around most of the time in order to keep running, because when something goes down you can't get it going because the availability is limited.

I have sold some hay balers over the last several years off the farm there. Like last year, 1986, I sold four new hay balers. I sell the round balers. This year I have not sold one single new round baler. I know I had three dairymen this spring that talked to me and they can't get money, and as you go to the bank the banker looks at this here and if you lay these figures down to him he says, "What is the problem here?" You know, your income keeps going down.

We don't have any purchasing power, and as we look forward, I have two sons that are married and involved in our

operation, and another son that carries mail in town. He has a farm and he comes and gives us help, and surprisingly, you know, we talk. Fellows, he carries welfare checks to homes, people that have better homes than my boys live in, and some have got better automobiles than my boys do.

Now here we are trying to survive. We are trying to work this thing out. I know you fellows hear a lot of testimony both ways, what are you going to do with the surplus, what are you going to do. We did not attempt to get into any of the buyout program, we just tried to keep our heads up there and tried to have a little pride and we wanted to keep our cattle.

We have a lot of people in our area, the ones that didn't participate in the buyout, have increased because they are afraid we are going to have quotas. So they said, well, we better get more milk so we will have a higher base. Feed cheapened up some and this introduced to some of the producers in our area to try to increase production.

So this thing is running deeper than what we really realized down the road. Back in the early 1970's our local department in our local school there, we had a two teacher Ag. department. We were carrying upwards of 60 students in our Ag. department. Last year we had 19. We had 19 students left in our Ag. department.

Now realizing some of this here you guys may not care much about, but I am looking down the road. Who is going to take over and who is going to be out there in the future years? I am looking down the road. Maybe in 7 years I want to think about retiring. How am I going to get out of this thing, and how are the boys going to take this thing over? It is tough.

So at this time I will close. I hope you can consider some thoughts I presented to you. I am sure you heard some of them before today at other meetings you've been sitting in, but I will try to answer any questions you try to put to me.

Mr. Laurie: All right, thank you, Max, I appreciate that. It is right from the heart.

Are there any questions from the commissioners? Bob Foster.

Mr. Foster: Concerning the reconstituted milk issue, are you saying that it should not be considered class I?

Mr. McMichael: The statement that they put in here, it says that we believe the present requirement that reconstituted or filled milk be priced under the classified pricing system as this would benefit both producers and consumers. Therefore we object to any change in the system which would tend to provide incentives for handlers or pushers for reconstituted or substitute products.

Mr. Laurie: Any other questions?

Max, we appreciate your testimony and, thank you very much for appearing before the commission.

Mr. McMichael: Thank you.

Mr. Laurie: Next we have William Kelch and Melvin Schweizer. Mr. Kelch is from Clifton, Illinois, and Mr. Schweizer is also from Illinois. They represent the Illinois Farm Bureau.

Mr. Kelch: Thank you. I am glad to have this opportunity today to present some of the feelings of the Illinois Farm Bureau to the commission.

My name is Bill Kelch. I am a dairy farmer from Clifton, Illinois. Clifton is about 80 miles south of Chicago. We farm about 280 acres of corn, soybeans, hay, and have a 70-cow dairy herd. My brother and I operate this along with my son.

Today I am representing the Illinois Farm Bureau and its 5,000 plus dairy farmers throughout the State of Illinois.

Presently the American farmer markets many of his products on what could be best described as a generic basis, and takes an average price for what is perceived to be an average product. Obviously one half of a specific product is above average in quality, and we believe we should be compensated for above average quality products.

I think that many of the dairy co-ops today have been initiating programs where there are some premiums involved for low bacteria counts, low cell counts, and so forth, and it depends on the quality of the product that the producer produces whether he qualifies for that premium. I know that the co-op that I am involved in today has over the past couple years. There were more and more producers that qualified for those premiums. So we have a strong feeling that producers are encouraged by premiums for quality products, and I think that this should be something used more in the near future.

The dairy industry should move towards marketing milk on a protein or solids-not-fat content basis in addition to fat content. The FDA should increase the minimum standards for milk and should use the existing California standards.

As we all know, government CCC purchases continue to be higher than desired by everyone, by the dairyman, the consumer, and the government. Current purchases exceed the desired 5 billion pound level.

As you probably are aware, Farm Bureau members have historically favored a supply demand economy, and believe that this is the best way for all markets to work, including dairy. The past programs we have had over the past couple 5 or 6 years indicate that dairy farmers do have the ability to change their production rather rapidly. I think that at the end of the diversion program we saw production escalate and we had to develop another program immediately to curb some of that production. So I think that dairy farmers do have the ability to change that production level rather rapidly.

To ensure availability of milk and milk products throughout the United States, we have supported the dairy price support program whose aim is to bring supplies in line with demand. We believe the existing system of adjusting the price support level according to total CCC purchases to be in the best interests of dairy farmers and the American public.

The most effective way of reducing dairy supplies is through a systematic method of reducing the price paid to dairy farmers when government purchases the above desired levels. Decreasing milk prices will send a signal to producers encouraging them to decrease total production.

I was reading, in the last week or so, an article out of a magazine that is rather new. The magazine is called Choices. There was an article in there that had been written by Neil Harrow, the professor over in Iowa State, in Ag. Economics, and I guess as far as any comments go you can find them swinging on both ends of the stick with varying opinions, but Neil Harrow in that particular article suggested that producers will overproduce if the market is above the fair value, and I think from time to time we have seen that situation exist.

This systematic decrease in products should continue until supplies are in line with desired levels of government purchases. When government purchases are below desired levels, support prices should be raised systematically using the formula in reverse.

For many years farmers have recognized the benefits of finding new products, and as a whole we support the use of new technology to develop these products. However, we believe that these products should not be permitted to use a traditional product name in an attempt to secure part of an existing product market.

I think a lot of people who are consumers today go into the store and are looking for a dairy product in the dairy case, and they are looking for a beef in the meat case, and so forth, and I don't think that they really want to be deceived by a product that carries the name dairy or beef or something like that, when it is an imitation product. So I think that we need to work real hard to keep these products labeled as such.

We believe that a new food product should be required to develop its own name and stand on its own merits. This is particularly true of dairy products where the use of imitation or products is very high. We believe that imitation cheeses, imitation ice cream, and other imitations should develop new product names with no reference to an existing food product, such as cheese.

Many areas of agriculture have been affected by the Delaney Amendment requirement of absolutely no levels of carcinogens in foods or food products. Continually advancing technology has improved our ability to test for smaller and smaller levels of these carcinogens. We encourage USDA to sponsor research to determine no effect levels for hormones, antibiotics, and other substances in milk.

U.S. producers of dairy and/or agricultural products have long supported efforts to keep the United States free of foreign exotic diseases. We support regulations aimed at keeping exotic diseases from entering the United States, and support the requirement of inspection for all imported dairy products at port of entry. Foreign producers and processors should meet all U.S. health requirements prior to being permitted to ship dairy products to the United States.

I think that many of the foreign countries today, some of the public health requirements that we dairy farmers in the United States face, a lot of the foreign producers don't face the same situations, and have the ability to produce under entirely different conditions.

We also believe to protect U.S. producers, no dairy products should be permitted from any nation that has not been determined free of foot and mouth disease and rinderpest.

Since the inception of the 15 cents per hundredweight, National Dairy Promotion program's checkoff dairy consumption has increased 10 percent. The dairy industry is most fortunate to have the National Dairy Board to continue their efforts to increase sales of dairy products. The current National Dairy Promotion program has been operating very effectively and we support the continuation of one National Dairy Program operated by the appointed 36-member National Dairy Board.

We believe that efforts to merge the National Dairy Board with the United Dairy Industry Association would not be in the interest of U.S. dairy farmers, would increase administration expense, and would divert money from much needed promotion programs. We believe that imported milk and milk products should be assessed at the same level as U.S. produced products.

We believe that the future is and will continue to be bright for dairy farmers, and while we recognize that there are many challenges ahead, we believe the adoption of Farm Bureau policies will help us meet these challenges and make dairying an attractive industry for us and our children.

On behalf of the Illinois Farm Bureau, I wish to express our appreciation for the opportunity to address this commission.

Mr. Laurie: Okay, thank you, Bill. Okay, Melvin Schweizer.

Mr. Schweizer: My name is Melvin Schweizer. I am a dairy farmer from Witt, Illinois, and if you wonder where Witt is, it is about 50 miles southeast of Springfield, the famous Abraham Lincoln landmark is in Springfield, and I milk 50 cows. We have more cows in the herd but we presently milk about 50 cows. I am in partnership with my son. We also have a grain operation that goes with the dairy operation, and we think of our farm as a family farm. There are many descriptions of family farms, but we think ours is a family farm because my wife and I, and my son and his wife, do all the work. So we think that is a family farm. I am also president of Prairie Farms Dairy, a dairy cooperative based in Carlinville, Illinois, and affiliated with the Illinois Farm Bureau, and this is the reason I will be speaking on behalf of the Illinois Farm Bureau.

The majority of Illinois farmers favor the free enterprise system, and believe that a program that allows a supply demand economy to work is in the best interests of all farmers. This is also true for the dairy industry. Due to historical areas of milk shortages and surpluses, a dairy price support program was implemented and is the program we are under today.

We believe that a program allowing the price support level to be adjusted automatically according to the net dairy products purchased by the government is a most effective way of dealing with the dairy surplus problem. In a free market system, as the price decreases production should also decrease. The current government program is the best method available of getting this production in line with demand.

At a time when dairy farmers prices are decreasing we must be certain that dairymen do not have to deal with unfair competition from imitation products. While we have no objections to allowing free enterprise to develop new products, we do believe that these new products should be required to develop their own name and not be permitted to use an existing product name coupled with the word "imitation." These products should be required to stand on their own merits and not be permitted a free ride by associating themselves with high quality dairy products.

American dairy farmers are known around the world for high quality products. Programs encouraging dairy farmers to continue to produce these high quality products must be encouraged. Dairy farmers should receive a premium for producing better than average quality products.

In our co-op we know this to be a fact. We know that it does work. We have a program that has improved the quality of the milk that is produced by our producers far beyond what the producers themselves thought they could do, but there is some incentive attached to producing high quality milk and they have increased the quality of the milk by quite a bit, and our personnel at our dairy plants tell us it is much, much easier to sell a high quality dairy product than just an average quality dairy product.

Much has been said about the presence of hormones and antibiotics in dairy products. All dairy farmers believe that the American consumer must be assured of receiving a wholesome safe product. We support the creation of a threshold or a no level effect for specific substances that can on occasion be found in milk. While we do not oppose requirements that milk be relatively free of residues, we do feel that testing for parts per billion or even parts per trillion is going a little too far.

We in Illinois have very specific health requirements for our dairy herds, as well as our milk processing plants. While we do not support importation of dairy products in general, we believe that any specific imports should be required to at least meet the minimum requirements present in the United States. We also oppose importation of dairy products where an exotic disease is present.

From the beginning the Illinois Farm Bureau has supported promotion programs aimed at increasing dairy consumption. In 1968 Farm Bureau was instrumental in the development of a dairy promotion program for southern Illinois. We support the national dairy promotion program and its 15 cent per hundredweight checkoff. We do support a continued National Dairy Board in its present form, and oppose efforts to increase the size of the board or merge it with any other existing organizations.

Dairy farmers in my central Illinois, as well as the entire state, look forward to the day when dairy production is back in line with demand. We look forward to the day when dairy prices again are at an attractive level. We look forward to the day when we see less competition from the imports and imitations. We look forward to the day when we have less problems with diseases, and we look forward to the day when milk is once again recognized as the most wholesome, nutritious, and desirable beverage on the market.

Thank you for the opportunity to address this commission.

Mr. Laurie: Thank you, Melvin. Now are there any questions from the commission members? Bob Foster.

Mr. Foster: Melvin, I have a question on the first page of your testimony. You talk about being automatically adjusted to the net dairy products purchased by the government, what do you mean by net?

Mr. Schweizer: I think we believe that when the government is buying many dairy products, apparently there are too many being produced, and if the price would reflect the surplus, yes, then that would take care of the surplus quicker than the government purchasing them and keeping the price at the same level.

Mr. Laurie: Bob, was your question net versus gross?

Mr. Foster: Yes, his definition.

Mr. Laurie: Well, what is net? Net apparently is in the absence of some other part.

Mr. Kelch: I think what we are looking at as far as net goes is the 5 billion pounds.

Mr. Foster: There has been some discussion as to whether or not some of the programs that are currently in place as a way of removing surplus products should be counted in that 5 billion pound magical number. What level we should be striving for to act as a trigger.

Mr. Horner: Mr. Kelch, on page 4, on the bottom third of the page you say, "We support the continuation of one national dairy promotion program operating by the appointed 36-member board. We believe that efforts to merge the National Dairy Board with the United Dairy Industry Association would not be in the interests of the U.S. dairy farmers, and would increase administrative costs."

That statement is not correct because we do have two different organizations, and when you say there is one program that is not true because we have two programs.

Mr. Kelch: Well, essentially you have got the 15 cent check-off program, which was mentioned earlier, a nickel stays with the national and a dime goes to the states, and you have state organizations that are utilizing that dime, and what we are suggesting is that we don't need to increase the members of the national board to that 72-man level as was discussed back I think a year ago they were talking about that.

Mr. Horner: You've got a 72-man board already. That is two organizations, and there is a paper prepared that in the event you merged the two organizations there would be a saving of probably anywhere from \$10 to \$20 million in just television buy alone. You do away with one administrative office entirely if you combine the two.

I used to be on the DA board and I am very familiar with the setup of the board, and your statement is not correct because we have two separate national organizations that you are promoting?

Mr. Kelch: Right.

Mr. Horner: And your statement says just one national dairy board.

Mr. Kelch: Well, essentially I am aware that there are two boards, but there is talk today of merging those two boards together into one 72-man board, and what I am suggesting is that our feeling is that we are much better off if we keep that one appointed national board by the USDA intact rather than increasing it.

Mr. Foster: Are you saying that you are not necessarily opposed to getting them together, but that you have more problems with having a larger board size?

Mr. Kelch: Yes, right. I think that, well, we have more opportunity to work with a smaller board, and we think that there is a lot more efficiency involved there, and probably a lot less politics involved, and we just think it would be a better organization.

Mr. Foster: I am not disagreeing, I am just trying to see whether the concern is with duplicity, or with the political structure. You are saying that the problem is in the political structure.

Mr. Horner: I have a real problem when you say political. That 36-member board is a politically appointed board, and the other 36-member board is elected by the dairy farmers, sir. You have got that backwards.

Mr. Kelch: I understand that.

Mr. Laurie: All right, any other questions?

Okay, thank you, Gentlemen, we appreciate that.

Mr. Kelch: Thank you.

Mr. Laurie: We will call Doctor Bill Dobson of Purdue University, and Doctor Carl Zulauf of Ohio State University to please come forward.

Dr. Zulauf: Mr. Chairman, members of the Commission, and distinguished ladies and gentlemen of the audience.

It is indeed an honor to be here today and to address this Commission. My name is Carl Zulauf. I am an assistant professor at Ohio State University, and just briefly let me give you my personal background. I was born and raised on a general farm about 130 miles east of here. We did have dairy cows on it. I went to Ohio State and then to Stanford for my Ph.D. and returned to Ohio State. I work primarily in the areas of agricultural policy and in futures markets. I think it is important for the Commission and me to note that I am not a dairy expert, but that I am familiar with the program. My expertise is more in the area of general farm policy.

I would like to note before I begin that I think this Commission is in a very important position in the policy debate. We are just beginning the initial discussions and run up to the 1990 farm bill, if there is to be one in 1990. I think this Commission has the opportunity to provide leadership in that debate, and furthermore, as I will discuss later on, I think it is imperative that this Commission devise a policy which is consistent across all commodities, not just dairy.

Let me begin by reviewing the economics of farm policy. I think it is important to examine economics right now in the policy context because my own personal view is economics

has little to say about the short run but has an awful lot to say about the long run, and this Commission is a long run policy Commission.

If one looks at the history of policy, which is about 55 years in length now, there are two fundamental principles I would suggest. The first is that there has been a tendency for U.S. agriculture to produce a surplus. That surplus is a result of the economic characteristics of agriculture, the two primary being the fact that there is a fairly inelastic supply response in the short run and a fairly inelastic demand response. They lead to the tendency of not only surpluses but significant price adjustments to those surpluses.

I think the other thing that needs to be pointed out relative to surplus is that this is a function of economic development, and that the whole history of economic development is one of shifting resources out of agriculture into the urban centers.

The second aspect of policy economic perspective is one of resource adjustment. Farm policy in this country, farm policy in any country, whatever its form, does not stop resources from exiting agriculture. One need only point toward one fact and that is in 1930 there were over 30 million Americans living on farms, and today there are less than 3 million. So, any policy which is initiated has to address the issue of resource adjustment to surplus production.

Now having examined the brief economics behind it, let's look at the policies themselves. Basically, in 55 years there has been little change in the agricultural policy of this country. It has been formulated on four pillars—first of all, demand expansion: food stamps, export promotion, and more recently promotion programs such as the dairy program. Basically this is in recognition of the fact that there are two ways to deal with surpluses. One is to expand demand and the second is to control production itself.

The second pillar has been income supports generally through prices, indirectly through prices I might add, and now in recent years directly through target price deficiency payments. The third is that price supports are not only to support income to farmers, but also to stabilize prices to both the consumer and the producer. Lastly, the fourth has been one of allowing resource adjustment to occur, but to occur in a manner much more slowly, I would argue much more humanitarian in nature, than would occur in the free market, but I would like to emphasize, not to interfere with the free market.

In that 55-year history there have been, in my opinion, only two major changes in farm policy. The first occurred in 1973 with the farm bill of 1973 where we went to target prices for grains and thereby went to direct income payments to grain producers. The second major change in farm policy is the one I want to dwell on that has been a move from a universal policy for all of agriculture to one of commodity specifics. To elaborate, what I mean is that when we started farm policy in the 1930's we had a uniform method for calculating support for agricultural commodities, specifically the parity prices. Parity has become a concept that has outlived its usefulness and over time we moved toward specific programs.

Now we have basically three different types of programs. We have the income-price support programs for crops, we have the government purchase program for dairy, and we have the mandatory supply control programs for peanuts, sugar, and tobacco still in existence. The problem with this is that agriculture is a unified whole. If you change it, it is a little bit like blowing up a balloon and sticking your finger into it. If you stick the finger in one side then you are going to pop something out the other side, and if you don't have a consistent policy you have more probability of busting the balloon if you stick your finger into it.

I would like to point out two illustrations of this inconsistency. One was the whole herd dairy buyout. I am not criticizing the whole herd dairy buyout, but as perceived by the beef industry, they perceive the dairy industry as causing either rightly or wrongly a significant drop in beef prices. The result has been that the dairy industry has created a very powerful adversary that is going to have to be dealt with in the forthcoming negotiations over the 1990 farm bill.

The second point of inconsistency is the one that really bothers me right now. The 1985 Farm Bill, as administered, has led to a significant drop in feed grain prices, about 25 percent. That is going to have to transfer eventually into a drop in livestock prices. The numbers suggest current price levels may drop 40 percent in the whole livestock complex. With the exception of dairy, the livestock complex does not have any income supports.

Now, getting to dairy specifically, with the bill currently in existence you could have up to a 15- to 20-percent reduction in support prices, but that doesn't match the 40-percent overall decline in the livestock complex—which suggests that dairy is going to have significant surplus production problems over the next 35 years, whatever happens on the technology front.

Turning to the inconsistencies themselves, I think that this Commission needs to deal with these inconsistencies today. I think the Commission should consider how a formula can be devised to calculate the level of price and income support, and that formula should not be dairy specific but should be specific to all commodities. I don't want to presume to tell the Commission what to do here, but I think there is merit in perhaps going back and looking at parity and trying to revise it in some manner.

The second thing I would like to point out to the Commission that I think needs to be dealt with, and I think dairy is in the process of doing this right now, is to move to some sort of temporary surplus disposal program. I would submit one for consideration, and certainly not the only one for consideration: an unpaid diversion program very similar to what is in existence for crops. I think that is what the dairy industry has been moving towards for the last 5 years. With first the dairy diversion program and then the whole herd buyout, we are seeing a policy emerge out of temporary resource adjustment.

Finally I would like to make the observation that has been made by several people much more knowledgeable in the political arena than I am, and that is when a policy is developed it takes about 5 years for it to be accepted. That is just simply a reflection of the political reality of getting it across,

getting the bugs worked out of the program, et cetera. So I want to emphasize that this Commission is in a very, very favorable position for having significant input in the 1990 farm bill.

I thank the Commission.

Mr. Laurie: All right, thank you, Dr. Zulauf.

Doctor Dobson.

Dr. Dobson: I am pleased to have the opportunity to testify before this Commission on important issues facing the U.S. dairy industry. My name is William Dobson, head of the department of agricultural economics at Purdue University. Although I do have some experience in the dairy industry I have not kept tabs on all the significant changes which occurred in the complex dairy industry almost on a daily basis in recent years. So I will focus my comments on some longer term issues for which I may have some comparative advantage.

Now what is the financial condition of Indiana dairy farmers? Although we in the agricultural economics department at Purdue University do have financial information from a random sample of Indiana farmers, we do not have the information broken down for dairy farmers. The aggregate financial condition in Indiana of farmers appears to be better than that of farmers in the western Corn Belt. This is because income obtained by Hoosier farmers from nonfarm sources, mostly off farm jobs, comprises about 35 to 40 percent of their total gross income, which is several times larger than the comparable figures for the farmers in the western Corn Belt. The information we have specifically for dairy farmers suggests that they also participate in a very important way in obtaining the off farm income, similar to that of Indiana farmers in general.

As is the case in much of the United States, Indiana farmers who are carrying heavy debt loads are experiencing financial stress, which is not news to the dairy farmers.

How effective will the current price support program be for preventing significant surpluses of dairy products? I believe that is one of the questions that this commission is addressing. For the next 2 to 3 years dairy surpluses may remain at manageable levels under the present dairy price support program. The key question is whether large surpluses would develop under dairy support prices as low as \$9.50 or \$10 per hundredweight in the early 1990's, if, as expected, supply increase effects of new dairy technologies continue to accumulate.

I am not forecasting a decline in the dairy price supports to \$9.50 or \$10 per hundredweight, but I do suggest that under some scenarios regarding new technologies milk supplies and CCC purchases of dairy products could be burdensome even with price supports at such low levels.

How will the dairy price support program respond to challenges technological changes will bring to small- and medium-sized farms? It is implied by the question that the small- and medium-sized dairy farmer may find it difficult to complete in the years ahead if bovine somatotropin, BST, produces the large production increase forecast by some researchers. Kalter, for example, argues that the low cost of

somatotropin coupled with the expected productivity gains of 25 percent or higher virtually ensure its rapid and widespread adoption, especially by operators of large dairy farms.

BST has been likened to hybrid corn which increased corn yields per acre by more than 50 percent from 1935 to 1939 and from 1946 to 1953. If, as expected, BST is approved by FDA, problems associated with its use, including those associated with administering the product, extra management requirements, and earlier cow burnout, are some factors which could cause use of the product to be less widespread than some have forecast.

But even if problems reduce use of BST, there are other technologies which may increase milk production substantially, including embryo transfers, use of transponders and computers to dispense optimal amounts of feed to individual cows, use of robotic techniques for milking cows an optimal number of times per day to obtain additional production, and advances in nutrition. Some of my engineering colleagues tell me that robotic techniques have been used in Europe, and apparently this is an effective way for milking cows a multiple number of times per day, under highly automated systems.

These technologies like BST likely will be adopted first by the operators of the larger dairy farms. So what does this mean? World War II came along to sharply increase the demand for corn, blunt the price depressing effects of increased corn supplies, and ease the adjustments associated with introduction of hybrid corn.

Nothing analogous to hybrid corn to the World War II demand-increasing situation appears on the horizon for dairy products, although advertising and promotion programs for dairy products generally appear to be effective, and commercial sales for certain dairy products have strengthened in recent years.

Hence, major sometimes painful economic adjustments may be in store for dairy farmers in the early 1990's. However, I don't believe that this means that efficiently run medium-sized and larger farms in Indiana, the upper midwest, and the northeast, will be forced out of business.

Cost figures presented by Stanton of Cornell University suggest that efficiently run dairy farms with 50 to 60 cows may be able to compete effectively for a few more years, but Stanton also suggested that the logical lower limit on dairy farm size may be 80 to 100 cows after a few additional years. If these numbers are approximately correct, this signals the need for major adjustment by farmers in states, such as Minnesota and Wisconsin in particular, where about one-half of the dairy farmers presently have less than 50 cows. Farmers in these states will have incentives to put together larger family dairy farms, as some of the smaller producers exit from the business.

Would a better response to the challenges posed by technologies be achieved through alternative policies? In broad outline, some major policy options for dealing with the environment produced by the new technologies are as follows:

One, employ supply control measures which permit relatively high milk prices to be maintained.

Two, muddle through with some reduction in dairy price supports and relatively high federal budget expenditures for dairy price supports.

Three, establish substantially lower dairy price supports providing only a safety net, coupled with adjustment payments such as those associated with the recent dairy termination program.

I am assuming that import restrictions on dairy products will continue under all options described above.

The advantages and disadvantages associated with each policy option are generally well known. Quotas, a frequently mentioned supply control measure, permit higher milk prices for farmers but restrict producers' actions and cause resource misallocation. Milk producers also appear to disagree about the acceptability of quotas, and I think we have seen that today in the testimony of the farmers.

The muddling through option will require milk producers to spend political capital on a near continuous basis to maintain price supports, necessitate dairy product distribution programs, and involve large government expenditures for dairy product purchases and storage.

The option involving lower price supports and adjustment payments could help the smaller producer to exit the dairy business with less pain, and put the remaining producers on a more market-oriented footing. Some variation of the recent dairy termination program might be useful for facilitating the adjustments needed under this option. Job training and reemployment assistance programs also may be required for dairy farmers. Indeed, a number of additional adjustment programs may be useful if this option isn't followed.

In my judgment the third option has important advantages for the dairy industry which is likely to experience rapid supply-increasing technological change in the early 1990's.

It also will be important to the dairy industry to maintain a healthy general economy and relatively low interest rates. Mainly this is because dairy product sales appear to be sensitive to general economic conditions, and profits in the capital intensive dairy farming business are sensitive to interest rates. There is no sure prescription for producing such results, but lower federal budget deficits might help.

Thank you for the opportunity to present these comments.

Mr. Laurie: Well, thank you. Are there any questions?

Bob Foster:

Mr. Foster: Yes, Doctor Dobson, you made the basic assumption that there would be no changes in the revision of Section 22. Do you really believe that that is where we are going to be headed?

Dr. Dobson: Well, I know Section 22 is under scrutiny and certainly something could be done to negotiate away the import restrictions provided under Section 22. I am certain the dairy farmers will not negotiate away that important provision lightly, given the importance of the import restrictions to maintaining prices domestically for the dairy industry.

Mr. Laurie: Does that answer your question, Bob?

Mr. Foster: It give me a little better feel. One of the problems is that we have to make some assumptions when it comes to policy, and policy unfortunately is broader than just a domestic policy when it comes to all of our commodities. I guess we are going to have to wrestle, with where we are headed so we can derive something long-term.

Dr. Dobson: Well, I think you recognize the implications of giving up the Section 22 provisions, given the comparative position of the U.S. dairy farmer. There are people in the world, as you well know, who produce dairy products very efficiently, mostly on grass, who would be formidable competitors in world markets, and indeed might export a considerable amount of product in the United States.

I did make the heroic assumption that you would be able to retain the import restrictions. I think that is probably a key to maintaining the dairy industry even at some modest size in the United States.

Mr. Foster: Doctor Zulauf indicated we ought to have a system policy, and our international policy on commodities in the feed grains is just the opposite of that. I am wondering if we are going to be consistent, are we going to give up Section 22, or are we going to try to have just a domestic market for other commodities?

Dr. Dobson: Well, I think certainly if we were to go to a more market-oriented economy, certainly we can go with it. We can undertake that in various steps, but it would be a very dramatic one indeed to give up section 22, particularly on dairy products. It may be on the table. Certainly when Mr. Reagan talks about, and apparently has agreement from other western leaders, that there needs to be a substantial reduction in farm price supports worldwide, you could interpret that to be a rather sweeping statement that could sweep away very important provisions for individual programs. But I am not ready to accept that as much more than rhetoric, and I am not sure what Mr. Reagan and some of the European leaders, and Japanese leaders, would like to see become a reality any time soon.

Mr. Horner: Concerning the 5 billion pound trigger point in production, do either of you have any ideas about that? As I understand, when it was initially used in the support program, it was an arbitrary figure that happened to be handy.

Dr. Dobson: I have a few ideas but I think Mr. Conover's comments this morning captured my own judgment on it fairly well. I am not sure that a 5 billion pound purchase level would be required to maintain any sort of a needed working inventory level. If you take away the presence of government and as a storage mechanism, the private sector picks it up. I see nothing to suggest that you need anything for reasons other than that purchases at the 5 billion level are not particularly large by historical standards, but other than that I don't know that there is much that justifies a greater level than that.

Dr. Zulauf: I think that the 5 billion pounds is not quite the manna from heaven as it is being portrayed. I don't know what the considerations were, but I am sure that there were considerations that had to do with historical purchase levels, give and take between suppliers and processors, and it probably came down to a reasonable economic number. I

think the question is whether 5 billion pounds is going to be suitable 10 years from now. I note that the commission has to deal with that, and to be quite honest with you I don't have any answer. If 5 billion pounds is suitable today, and let's say production goes to 200 billion pounds, maybe you will need a higher number later on. Maybe it should be expressed as a percent as opposed to a level, but I think there are probably pretty good reasons why the 5 billion pounds was agreed to. I can't give them to you, but I have that much faith in the political process.

Mr. Horner: Doctor Zulauf, you explained your feed grain price and livestock price scenario to us in the next room. For the record, could you please explain it again?

Dr. Zulauf: Well, I think I should add, as Bill indicated, one can die pretty quickly when predicting that prices are going to do anything, but I think that we have a serious imbalance. I happen to believe in equilibrium, and I happen to believe in economic equilibrium. I think we are going to see prices decline to that level.

When is a very tricky issue. Maybe I should explain and get into the record why it is so difficult right now to predict. By all indications the March hog numbers are not correct. The experts are scratching their heads wondering what is going to happen. But I think the decline in livestock prices is going to occur when hog production starts to increase.

I would submit that by later this year we will start to see prices under pressure for three reasons. First of all, hog producers will be expanding; second of all, the huge entry of cattle into feed lots in recent months will start to come to the marketplace; and third, we are already building up tremendous poultry stocks right now, given their 8-percent expansion growth and 15 percent in turkeys. Cold storage stocks are up over a year ago, and it takes time for the marketplace to react.

I would say by the end of this year we will see prices under pressure and by late next year we should see some beginning of financial stress in the livestock community.

Mr. Shade: In recent years we have changed commodity groups to possessions as compared to general farm organizations. Do you want to comment on how we can overcome making that diversion of economic interest between groups.

Dr. Zulauf: I think that what you hit on is one of the manifestations of specialization in agriculture: the rise of commodity groups. I think that it is going to be very difficult to overcome. I don't want to overemphasize that, but I do think that two things are in the air that possibly portend that a change may well occur within the next 10 years. I think the first is how much we are spending in agriculture—26 billion dollars. That sounds like a lot of money, and it is a lot of money, no question about that, but it is better put on a percentage basis. We are spending 2.6 percent of the federal budget on agriculture.

When one goes back historically, that is not that much larger than what it was in the 1960's, and not that much larger than it was in the early 1950's. History also tells us when you get to about 2.5 to 3 percent, people start getting a little skittish. They say, we are not going to spend that much, and you will start to see programs enacted which cut back the level of

expenditure in agriculture, and I think that it is easy to spend money when you've got more to spend, and it is harder to spend when you've got less to spend. I think that we are going to face a condition where we are going to start seeing the budget in agriculture shrinking, and I think the farm groups are going to have to come together and figure how they are going to deal with that shrinking budget. So, I think there may be some budgetary pressure to push the farm groups together.

I think the other factor is when livestock prices start to come under pressure. I think that is going to wake a lot of people up that are a lot more dependent on these commodities than what they thought in the past. I think also we are headed towards a collision course in corn and beans, because the bean loan rate is so much higher than the corn loan rate. All the farmers that feed are going to face in 3 or 4 years a real issue about whether you feed beans or corn for protein. Prices are going to be way out of line unless something happens between then and now, such as a drought or a world war.

Mr. Laurie: Are there any more questions?

Mr. Horner: I get a bang out of Doctor Dobson's use of political capital. I have never seen that terminology used. Is that a communist way of saying government payments?

Dr. Dobson: Well, it is an economist's duty to use that term, and political capital is something that you have to husband fairly carefully. You own a lot of it in the dairy industry, so maybe it is not as scarce a commodity as it is in some places, but it will require expenditure of political influence or political capital in considerable amounts and with considerable frequency to maintain the muddling through option that I outlined.

Mr. Laurie: Doctor Zulauf, you mentioned that there had been two times in the past 55 years that we had major changes in direction of farm policy.

Have the two changes previous to this time been motivated by this 2.5 to 3 percent pressure on the budget, or have they been motivated by economic disarray within the agricultural sector?

Dr. Zulauf: I think it depends on which one you are looking at. If you are looking at the target price, the target price shifted in 1973. That came in through the back door. If you go back to 1973, prices shot up very, very high. The concern came over consumer prices, not producer prices, back in 1973; and so the target price system allowed you to maintain income to producers and lower prices to consumers. So, I think that came through the back door in a sense. Again, I wasn't in Washington and don't know all the considerations. That was before my time. I didn't even know a farm policy existed at that time to be honest with you, and I get very leery about going back historically and resurrecting things that I have no recollection of save reading the newspaper story.

On the other one, though, I think that the growth in different farm-specific commodity programs is a reflection of what has been happening economically in agriculture, and that is the rise in specialized producers and the fall of the general farmer. It should be no surprise that dairy farmers would

form their own program, or tobacco, or soybean producers, or feed grain producers, because they are so much more specialized. So, I think that what you are seeing is that politics reflects the economics of the situation on that one.

Mr. Laurie: All right, any other questions?

Well, thank you both very much, we appreciate your input.

Doctor Larry Hamm of Michigan State University will be the next to testify.

Dr. Hamm: Thank you. It has been a long time since this morning, I think you will all agree, and I will try to be as short as possible. My name is Larry Hamm, Associate Professor of Agricultural Economics at Michigan State University, currently doing the dairy policy and marketing work at Michigan State.

As I have sat back trying to put some of this stuff in perspective, first I want to absolutely compliment the Commission for the level of questions and the interest shown to those people who appeared today and expressed themselves. I am very impressed so far of the Commission's work. That is one compliment. The second is I do not envy trying to bring order to the kinds of comments that are going on all over the landscape. I'll try to help in just this day. I know that you have had many other days like this.

Three or four things popped into my head and I would like to throw them out for your consideration as a way of helping me try to understand this industry.

One fundamental question will be government versus no government. I don't think that is really a debatable issue. In the dairy sector there have been three historic roles of government. Government has been involved in dairy to provide safe markets, orderly markets, and fair markets—the safety being, of course, the safety in health issues; the orderly issue primarily embodied in the order system and order regulations; and the fair market I guess is basically the charge of this commission. Of course you can debate what is fair, but it seems to me that the two issues of fairness. One is the level of income to dairy farmers vis-a-vis other farmers and the general level of society. The second is from the social dimension of what do you want the industry to look like and what can the industry look like.

So there has always been the role of government and it will always be in the dairy industry. The question is, how do you define the role of fairness, and if you are going to deal with income a couple of things really hit me. First and foremost is one piece of information an economist absolutely needs is the elasticity of demand. Elasticity is an economic term for what happens to farmers' income when prices change. One general thrust of policy option is market-oriented policies which use prices as the primary adjustment mechanism. If in fact the markets are very inelastic, not only do you get massive income adjustments to the dairy sector on the down side, you also do not get the adjustments, the spiraling effect on consumption on the up side.

As a professional economist the elasticities we have been using are vastly outdated, and I think I heard somewhere that the commission is looking for some help on, what has happened to the structure of the dairy product markets. The

issues of fluid versus cheese versus the new products we heard about this morning may indicate that the fundamental market elasticities changed.

Deciding the policy without that piece of information will be difficult. I don't know how to get in between now and next March. We have had empirical observations in the last 3 years, that as prices have declined we have had tremendous income adjustments in the dairy sector. As a result you had the response of increasing production to maintain cash flow. That is direct empirical evidence that there appears to be some basic inelasticity remaining in the dairy industry.

The second thing under the fairness issue is something we touched on just barely this morning; i.e. that the structure of dairy farming is undergoing some fundamental regional shifts. Much of this regional shift is market driven. We cannot overlook that. There is a sizable portion of the population that likes to live in warm and travel two weeks of the cold, rather than live in the cold and travel to 2 weeks to the warm. Changing the location people work and live means that you are going to get a natural shift in the location of the production of dairy products.

Okay, that is a natural economic phenomenon, but we do have problems on the dairy policy side. As Mr. Conover said this morning, trying to support farm incomes through a purchase program which then has to go through the objective functions of other people causes unforeseen consequences like plant managers and state regulators.

We have, I think, an issue that must be addressed. Is the current price support system operated and managed within a system where it fosters increased production which exacerbates these regional shifts?

I guess to summarize how I see regionalism. The state of California generally admits that they would like to have all the milk consumed in that state produced on that side of the Rockies. As they do that, there is a lot of milk that has been shipped from the midwest, primarily the upper midwest into California. As that production increases there the structural change, the adjustment in the dairy industry, is being borne and shifted to the upper midwest, primarily Wisconsin and Minnesota.

I did a little back of the envelope calculation that just the increase in cheese production in California alone in the last 2 years has probably displaced 105,000 Wisconsin cows. So as a result you will get that part of the country looking for mechanisms to try to keep from bearing the structural adjustment. We are beginning to see calls for changing the federal orders, primarily the reconstitution issue, and the revamping of the orders. Calls for multiple base point pricing systems and the whole series of other issues are logical responses. I think this is partially a response to how the support prices operate through California's state marketing order system.

Regional stress will continue and undercut all the policy deliberations and issues in dairy. This includes not only fair dairy markets but the orderly markets and perhaps even may be seen in safe market issues.

Finally my last point is that the commission is going to have to answer the question, "Is dairy different?" Is the dairy

sector sufficiently different to require a separate kind of policy that may not be in harmony with the rest of farm policy direction?

Of course, I don't want to get into a philosophical debate or anything like that, but I think that basically hits right at the heart of most policy debates. Those who maintain that dairy is different because it is a domestic industry that has some unique products and product elasticities.

But again I want to compliment you in terms of the hearing and the witnesses that were here, and I wish you the best of luck.

Mr. Laurie: Thank you, Doctor Hamm. Are there any questions from the commissioners?

Mike Horner.

Mr. Horner: Doctor Hamm, from an economist's point of view what are we to do about our surplus? If we ended up with a program of supply management, should it be shared equally throughout all regions of the country, including those that are in a deficit production?

Dr. Hamm: Okay, I will differentiate between supply management and supply control. Supply management has mostly voluntary sanctions. We won't get into the ways to handle the voluntary programs however. I think any policy is going to have to recognize these fundamental regional shifts.

So if you mean sharing, yes, there is going to have to be a sharing. The argument I could make is that there might have to be regional policies if you were going to have that. Recognizing that as I think the evidence comes in there are some fundamentally different production, farm management technologies, size operations. As a result one has to recognize that managing the output from fundamentally different kinds of business enterprises will require different kinds of programs. I view supply management as an attempt to maintain supply and demand in a balance that is consistent with the market and with the income goals that you set for the industry. If you want to balance the market you are going to have to really look at where the markets are, and there may have to be some adjustments in the implementation of the supply management program.

Mr. Horner: Do you have an opinion on the 5 billion pound trigger point?

Dr. Hamm: Yes, I have an opinion on it. I don't think it is necessarily that far out of line. There is a question on inventory holding patterns. There was some observation that many dairy economists made that when the government has the inventory function the private sector uses the government for inventory management. I am not too worried about the trigger level.

I guess one of the concerns I have as an economist and I am not making an outlook prediction, is that how does one use a trigger unless you use actual purchases? I am concerned about using anticipated purchases versus actual. I guess I am not as concerned about the number that you pick as I am knowing about the methodology that is used to make those determinations. I am much more concerned about that.

Mr. Horner: But as a dairy producer, it hits me square in the back pocket. That is why I keep asking the question, and I am getting answers all over the board.

Dr. Hamm: Yes. The level. I am not that concerned about 5 billion.

Mr. Shade: Dr. Hamm, we have seen the so-called voluntary program within the feed grain program. I heard one central Illinois farmer say, speaking of the 1985 farm bill programs, "Well, I sure would like to be in the program but I don't have any plow ground." So, I guess we have to admit that the high ground, the sandy ground, and the wet ground go into the feed grain and is set aside. Do you think we would have a better chance of having an effective voluntary program in the dairy sector versus what we have seen in the feed grain?

Dr. Hamm: Well, if you are managing marketings as opposed to one of the components of production, I think the analogy is not trying to manage cows to try to deal with marketings, instead of dealing with marketings directly. In other words, you have less slippage by dealing directly with marketings. So therefore you have a greater success, but it was brought out, I think, that the ingenuity of good business people is that no matter what program is designed there will always be someone that will find a profitable way around the program, and that is just a given. This is not necessarily a condemnation of attempting to try to deal with government programs. But, no, I think in dairy you have got a much greater chance. Another thing you got in the dairy industry is that it is a domestic industry.

Also, it is a very organized domestic industry with a mechanism to keep track of virtually every pound. There are very few commodities where you can keep track of every pound of the commodity. Again makes dairy different than a lot of the other commodities.

Mr. Laurie: Are there are other questions?

If not, thank you, Doctor Hamm, we appreciate your testimony.

Are there any other witnesses that would like to express themselves to the Commission? I don't want to miss anyone.

Well, let me say, thank you for your attention and your cooperation throughout the course of today's hearing. As you can tell, the Commission members value the input of the individuals, with no disrespect to the professionals, but especially the input of the farmer witnesses who are testifying about their own personal lives, and their families, and their own personal businesses.

I just might mention because the last three speakers alluded in one way or another in their remarks to this morning and lunch, that the rest of you didn't miss another hearing. This morning we had the opportunity to hear from Dr. Hamm at breakfast, and then at lunch we had Doctor Zulauf and Doctor Dobson explain to us their perception of the dairy industry within this area.

If there are no other witnesses, thank you, for your cooperation, and this hearing is adjourned.

(The hearing adjourned at 3:15 p.m., June 16, 1987.)

**The Following is Written Testimony
Submitted to the Commission**

**Statement of Gene H. Meller
Wauseon, Ohio**

There have been hints of the idea of another buyout that could be totally financed by the nation's dairy farmers. I think that at a set price, say around \$15, any dairy farmer could sign up for 5 years.

We have already removed 12 billion pounds of milk and 14,000 dairy farmers from the market. If we act now we would only need about 1,200 dairy farms and about 1 billion pounds of milk off the market. It would only cost us 10 to 15 cents per hundredweight to do this.

Another buyout would also benefit the cattle feeders even more than it has this time; beef has not been this high for a long time. There would be fewer cows having calves. This will also put a control on beef suppliers which would help both beef and dairy for a long time.

**Statement of Larry Wood
Burbank, Ohio**

Three items of concern as related to the dairy industry and the National Commission on Dairy Policy.

ONE: Farms which were enrolled in the Dairy Termination Program should not be permitted to be used for any type dairy production for the entire 5-year period. There should be no exception to the rule.

TWO: Money received by persons or companies as payment for participating in the Dairy Termination Program should not be used to finance other dairy operations.

THREE: A large cheese producer in Ohio is offering a large bonus to its producers if they will increase this fall's production over last year's. This procedure will offset any progress that has been made in the past dairy programs. There should be some way to educate processors about the effect this has on the entire industry.

DENVER, COLORADO

July 14, 1987

Holiday Inn

9:00 A.M.

Mr. Rutherford: If we could come to order. I would like to say it's a great privilege for the commission to hold this hearing in Denver, Colorado, and I'm very happy to say there are a number of dairy farmers and people from the industry and people who are concerned enough about the future of our great dairy industry to take the time to come and testify, and we're certainly looking forward to that testimony.

I'm going to try to move things right along so that we don't hold people up. If anybody has a time problem and would like to be moved up in a time slot, I'll be happy to try to accommodate them. If there's anybody in the room that wants to speak, please let me know and we'll accommodate them. I will limit the testimony as close as possible to 10 minutes, and I'll try to control the questioning to keep it on the topic.

So laying those rules then, I'm going to ask Leland Anderson, who is the general manager and executive vice president of Western Dairymen Cooperative, Inc. if he would come forward. You will be giving the first testimony.

Mr. Anderson: Good morning. My name is Leland Anderson. I am the general manager and executive vice president of Western Dairymen Cooperative, Incorporated, or WDCI, as we know it, and I would like to welcome you to Denver, Colorado, and the Intermountain Region and markets of the United States. I hope that you had an enjoyable visit and have an opportunity to better understand the production and market area that we service.

WDCI is the result of the recent merger of Mountain Empire Dairymen's Association, known as MEDA, of Colorado, and Intermountain Milk Producers Association, or IMPA, of Utah. WDCI is a cooperative association representing some 1,500 dairy farmer members in the states of Colorado, Utah, Idaho, Nevada, Wyoming, Nebraska, Kansas, South Dakota, Oregon, and California.

WDCI owns and operates four fluid milk processing plants and four cheese manufacturing plants located throughout the Rocky Mountain Region of the United States. Producer members of WDCI provide 2.4 billion pounds of milk annually to our principal markets of Denver, Colorado, and Salt Lake City, Utah.

Merging the two cooperatives brings together two drastically different marketing philosophies. Mountain Empire Dairymen's Association has historically maintained a strict supply management program targeting output to the Class I and II sales in the markets they serviced. This allowed MEDA to operate solely as a marketing cooperative supplying the raw milk needs of their customers.

The predecessor cooperatives to Intermountain Milk Producers Association made the commitment long ago toward the vertically integrated marketing of their product. In addition

to supplying raw milk to their customers, IMPA has maintained both fluid processing and cheese manufacturing throughout their principal markets.

I report this background information to you today to give the commission a better understanding of our market position as it relates to several key concerns confronting the national dairy industry. The marriage of these contrasting marketing approaches lends a great deal of diversity to our new organization. Our operations will be impacted equally by the supply-side philosophies, as well as the processing outlook, as they relate to the solutions to our industry's supply/demand imbalances.

Throughout the course of our testimony before the commission, our three objectives in prescribing alternative programs or program mechanics are: 1. to maintain an adequate supply of wholesome dairy products to consumers at reasonable rates; 2. to maintain dairy farmer returns at a level consistent with the cost incurred in the production of fluid milk; and 3. to minimize the cost to the Federal Government and taxpayers of the dairy support program.

In the supply management area, you are aware that the production areas of the Intermountain Region are isolated in pockets between mountain ranges. The three basic markets for fluid milk are the metropolitan areas of Denver, Salt Lake City, and Las Vegas. Consequently, there is considerable expense involved in the assembly of milk and its delivery to a fluid market or the removal of surplus milk to a distant manufacturing outlet.

Because of this fact, the cooperatives in the Intermountain area have utilized a base or quota system as a means for maintaining a market balance. The effectiveness of this type of supply management depends on the degree of participation by all producers within the market. However, it has worked and addressed the need for production consumption balance.

Dairy farmers understand that with the ability to produce more than our domestic market needs, you cannot expect to allow unlimited production and continue to receive profit-generating prices. The two do not go together. Consequently, some type of supply management program must be considered as a means to provide an ongoing market balance within the industry.

As you know, supply management is a very broad term that embraces many forms. Diversion, whole herd buyout, two-tier pricing, target price with deficiency payments, quotas and bases, or any combinations of these, can be considered supply management.

Dairy farmers, over the years, have worked diligently to develop programs that attempt to responsibly address oversupply in a manner that both consumers and farmers can live with. Experience has demonstrated to us that we cannot entrust to others the great responsibility of developing these

support program concepts. We, in the industry, must have a clear idea of what will work. Yet, to fully develop a program and have it accepted by dairy farmers throughout the country will take a great deal of effort. As the industry moves beyond the production restraints of the 1985 Farm Bill, alternative programs must be developed to ensure some degree of balance between our productive capacity and the demand for milk and dairy products.

To accomplish this, dairy farmers must have a long-term program that will guarantee that all producers will share equally in their responsibility for reducing production in times of surplus. It is important that the Secretary of Agriculture would have mandated standby authority for the implementation of a supply management scheme in any year that surplus milk production is forecasted to exceed government needs. This would involve the assignment of a market share to producers computed from a marketing history over a specified period of years. In times of surplus, producers would be paid on a percent of their market allocation, with the remaining production priced at a much lower level. This return for surplus could be linked to a world price or some other market-clearing formula. Inclusive in this concept would be the continuance of a dairy support program.

The price support program has served the dairy industry and consumers well as a means for product removal from surplus supplies or product availability for market needs or government programs. Over the years, it has effectively taken the sharp peaks and valleys out of milk prices and has provided considerable stability to the industry and consumers. It has met the original designated purpose of providing an adequate supply of milk for consumers at a reasonable price.

The support program with CCC Product Purchase Authority should be continued to meet the needs for government-sponsored programs and obligation and help maintain the needed market stability. Support prices should be tied to a pricing index that reflects more accurately the costs related to milk production than the current formula used to calculate parity.

The dairy pricing index. National Milk Producers Federation (NMPF) has developed a dairy pricing index that is a more realistic reflection of variable influences affecting dairy farmers' costs today, as well as the economic climate that consumers are experiencing. We support the use of this dairy pricing index, in lieu of the outdated parity index to adjust the dairy support level.

Dairy farming today is much different than in the 1910 or 1914 period on which the parity index is based. Attempting to measure in a meaningful way the changes in prices received for milk and prices paid by dairy farmers in comparison to 70 years ago is nearly impossible.

The NMPF proposal establishes a new dairy pricing index which relates the costs dairy farmers face today with those in the 3-year period from 1976 to 1978, a time of fair balance between milk supplies and demand. The index provides a weight of 80 percent to the cash expenses of dairy farmers using USDA cost of production data, 10 percent to the consumer price index, and 10 percent to the index of prices received by farmers for meat animals.

The dairy index also includes a factor which adjusts the index for changes in milk production per cow from the base period. This may help address the concern of the effects of new technology on per cow milk production. For every 100-pound increase in output per cow from the 1976 to 1978 base, the index is reduced two-tenths of a percent. This adjustment is a means of making small compensations each year to deal with changes in production costs associated with productivity changes.

The dairy index is designed to include a supply/demand adjuster to recognize that factors in the dairy pricing index are based on market conditions in a historical period and may not reflect the current or future market conditions. The adjuster acts as a fine-tuning mechanism to the index. Scheduled price increases and decreases may be triggered, depending on the estimated level of CCC purchases.

Under this proposal, the basic provisions of the current dairy product purchase program would not be altered. CCC would continue to offer to purchase dairy products at a set purchase price as a market-clearing function of the dairy price support program.

Technology. Over the last 20 years, significant increases in milk production have been achieved through rigorous genetic selection and breeding practices, accompanied by ongoing improvements in feeding and management techniques. A reasonable projection of current trends would have suggested 1.5 to 3 percent annual increase in the milk production on a per cow basis over the next several years. However, if the use of bovine somatotropin is approved and accepted by dairymen and consumers, future patterns of production will likely change dramatically.

Embryo transfer techniques will continue to enhance genetic gains in the years to come. Increased output from this advancement has increased per cow output in some animals by up to 50 percent, far more than what the potential of BST might be. In addition, it may be more acceptable in terms of consumer perception; or is it?

The possibility of substantially increasing production per cow through genetic improvement alone must lead to reductions in the national dairy herd. Furthermore, the increased efficiency of feed conversion in today's animals, and those we are building for tomorrow, is requiring fewer and fewer crop acres devoted to dairy feed.

These areas are but a few of the influences on milk production that will continue to strain the dairy price support program. Concern for the direction of the family farm will continue to motivate our thoughts as to what should be included in future farm programs. However, gentlemen, we must face the facts that the family farm structure, if it is to survive, will be larger and more efficient. Higher land prices, higher costs for labor, equipment, and other capital requirements will force the least efficient dairy farmers out of business. This is true of both the family or corporate farmer.

For this primary reason, Western Dairymen Cooperative, Incorporated, supports the continuing development of advancing technology, not from the standpoint of the productive gains that technology will afford dairy farmers, but from the standpoint of reducing our cost of production levels.

Reduced production costs on the farm will enable us to more effectively compete against the increased economic pressures of our economy and the world market.

Since the effect of developing technology could magnify the economic impacts on the dairy price support program, prior industry review and acceptance should be sought. This would assure that proper research has been completed and that the adoption of such technologies would not jeopardize the safe, wholesome reputation of dairy products with the consumers.

Dairy farmers in the Intermountain Region of the United States are committed to meeting the consumer needs for milk at the most economical price possible. They will not, however, be able to meet those needs if a national dairy policy does not address the needs of providing adequate returns for their investment in the industry. The evaluation and report by this commission of the concerns of the industry are important for the development for future policy.

Gentlemen, I thank you. I will take questions you might have or we'll have some continuing testimony.

Mr. Rutherford: Leland, I would like to ask Gordon Roberts if he would come up. Gordon is the first vice president of WDCI. We'll take his testimony and then we'll have questions for both of you.

Mr. Roberts: Good morning. I'm Gordon Roberts from Beaver, Utah. As a dairy farmer and first vice president of WDCI, we welcome the commission to the Intermountain Region of the United States. We are pleased that you have given the representatives of the industry in this area of the country an opportunity to share some of their concerns and suggestions. We recognize that we are part of a national market with cheese production in our manufacturing plants being sold in nearly half of the states in this country. We also recognize that national policies can have a major impact on our market and, frankly, this causes us concern. We can work to balance our production with local market needs or we can continually improve our milk production efficiencies, but what have we gained if our markets are destroyed by imports or expanded use of unlabeled imitations?

Dairy Trade Issues

The Uruguay round of multilateral trade negotiations under the GATT is causing concern among dairy farmers due to the experiences that were the result of the last round of such talks. Dairy farmers bore the brunt of the agricultural concessions that were reached in the previous trade agreement and appear destined for the same effect as the administration signals its intentions for current and future rounds.

The domestic dairy industry program that is affected by international trade negotiations is the Section 22, Dairy Import Quota Program. Section 22 of the Agricultural Adjustment Act of 1933 allows certain restrictions to be imposed on the importation of products that materially interfere with the operation of any domestic agricultural program. Import quotas are applied to most dairy products under the authority of Section 22 because unlimited imports of such products would soon destroy the dairy industry and the dairy price support program, which is a fundamental component of public food policy.

In keeping with past trade talks, our foreign counterparts are targeting the Section 22 import quotas as unfair, even though nearly all our trading partners operate similar programs of their own, which, in most cases, are even more restrictive than those authorized under Section 22. Nevertheless, during the Tokyo round of negotiations, the United States agreed to expand its dairy import quotas. Total allowable imports were increased by more than 91 percent. In exchange, the United States received tariff concessions on nondairy commodities.

Each additional 1,000 metric tons by which Section 22 cheese quota is increased has the effect of displacing the milk production of 36-average-sized dairy farms from domestic commercial markets and adds \$2.8 million annually to the public cost of the dairy price support program, based on 1986 prices. Translated, the Tokyo round of cheese quota increases displaced the markets of over 1,900 dairy farmers at a cost to taxpayers of \$150 million.

Trade issues, such as Section 22 import quotas, must be considered equally with domestic supply programs by the commission when evaluating the current dairy price support program. Asking our Nation's dairy farmers to wallow in milk prices below the cost of production while import quotas are negotiated further upwards, helps neither the consumer nor the dairy farmer.

Casein Imports

There has been a consistent failure to enforce long-standing policy in recent years regarding casein imports, despite evidence supplied in several investigations and studies. The International Trade Commission and USDA have completed studies that provide detailed evidence that the importation of casein is causing significant and steadily increasing interference with the dairy price support program.

USDA has estimated the government costs of the dairy price support program would have been \$600 million lower in 1985 if no casein had been imported into the United States.

Casein is imported into the United States primarily from New Zealand and EC countries. These EC countries have developed casein industries in recent years as extensions of their domestic agricultural policies, taking advantage of the United States' unique position among major countries of imposing no barriers to the importation of casein.

Subsidy levels within the EC are designed to allow casein processors to realize the same returns from casein manufacture and subsequent export sale at world prices as could be realized from manufacturing the same skim milk into nonfat dry milk and selling it domestically at EC-supported prices. In 1985, the casein processing subsidy was sufficient to allow the export of casein, from which processors realized at least the equivalent of \$1.70 per pound, at the world price of about 94 cents per pound.

Casein imports, upon which there are no domestic restrictions, and of which much is imported into the United States only with the help of substantial subsidies from foreign government, are steadily increasing the costs of the dairy price support program and increasingly interfering with the program, without any concern by our government.

Meat Cheese Pizza

Current USDA policy permits frozen meat pizza manufacturers to substitute up to 90 percent imitation cheese for the real cheese in these products. The only labeling requirement needed to inform consumers of this practice is the small print of the ingredient list. When consumers purchase frozen pizza, packaging material leads them to believe that they are purchasing a product containing real dairy cheese. Surveys have proven that the majority of consumers expect real cheese to be on any pizza product they purchase. Government labeling requirements, or the lack of, are deceiving consumers who purchase frozen pizza.

Furthermore, when pizza packaging includes the word "imitation" or "substitute" prior to the word "cheese" on frozen meat pizza labels, consumers clearly choose another alternative, even though it may not be labeled as being made from real cheese.

In 1978, the dairy industry had petitioned the Federal Government to require more prominent labeling of cheese substitutes or imitation cheese in food products so that consumers could tell whether a meat pizza product was made with real cheese. In evaluating the industry request, the USDA itself determined that because cheese is a major characterizing ingredient in pizza, a certain minimum cheese content should be assured. USDA so concluded that a minimum real cheese requirement of 50 percent should be enforced.

In 1983, USDA proposed to amend the meat pizza regulations by requiring a declaration on the principal display panel when imitation/substitute cheese was used. The proposal sat on the Secretary's desk for 4 years and has only recently been withdrawn by the department. USDA concluded that the comments in opposition to the proposed rule changes were persuasive and that the new requirements were not necessary.

What was overlooked is that major opponents of the proposal commissioned a consumer study that states clearly in its overview, and I quote, "USDA labeling requirements, if adopted, would exert a negative impact on sales of frozen pizza made with mozzarella cheese substitute or imitation mozzarella cheese." The study further states, and I quote, that, "Pizza packages bearing this type of label, imitation/substitute, were rejected by more respondents than was a package bearing no prominent name-qualifier label. Packages bearing a 100 percent real name qualifier are favored by consumers."

These statements from the major opponents' own study clearly display consumers' preference for real cheese on frozen pizza with the understanding that it does contain real dairy cheese. This issue must be clarified and corrected.

Federal Orders

The authority for orderly marketing of agricultural products through Federal Orders was established by Congress in the Agricultural Marketing Agreement Act of 1937. Authority was given to USDA to establish and administer these market orders and provide a means to make the necessary amendments as the market changes might dictate. In general, this process has worked well throughout the history of milk mar-

keting orders. I am concerned, however, with the ability of marketing orders to meet the current market needs of dairy farmers as they become more of a political football with decisions being made based upon the political wishes of an administration, rather than the facts presented in a hearing. It concerns me when market changes dictate amendments or consolidation of orders and it takes more than 2 years to get a recommended decision. It also concerns me when politics prevent the USDA from holding hearings on Class I differential adjustments and marketwide service payments, therefore, requiring Congress to get involved in what should be handled administratively. It concerns me even more when Congressional mandate is ignored and USDA refuses to implement marketwide service payments when it is requested by a market. I believe in the Federal Order System and feel that it has significantly benefited dairy farmers. I only hope that we can maintain a program that is responsive to market needs on a timely basis.

In closing, I would like to express my appreciation to the commission in this endeavor. The task you have before you is a monumental one. The outcome of your deliberations will not only affect dairy farmers, but all segments of the dairy industry, including the consumer. Major changes are occurring within the industry. Budget deficits, fewer federal dollars for agriculture, and improved technology could have an adverse impact on the dairy industry if we do not prepare for those changes today. Long-term stability within the industry is sorely needed to allow dairy farmers to plan for the future. In addition, consumers must always be assured of an adequate, but not overabundant, supply of wholesome dairy products.

The regional concerns of the industry are well represented on the commission in the appointment of dairy farmer representatives from all sectors of the U.S. Your arrangements to hold regional hearings throughout the country to better grasp local concerns to major issues confronting the national dairy industry are to be commended. Dairy farmers appreciate the opportunity to have input into the formation of future dairy policy. Thank you.

Mr. Rutherford: Thank you, Gordon. Leland, would you expound on your statement concerning supply management.

Mr. Anderson: I guess our statement there is leaving things somewhat open for consideration by the dairy industry throughout the Nation and even recommendations of the commission, but the point we were trying to make there is in this particular region of the country, where it is so critical to have a balance between the production and the market needs, especially Denver, as an example, because of the limited market for Class I, Class II, and the inability to move the milk to closer manufacturers' facilities has worked very effectively to have a tight market balance quota system. And that has worked well. I think something of that nature is necessary when we look at maintaining the needs for our domestic consumption, recognizing that the domestic needs include more than Class I and Class II, also cheese and milk. But when we get beyond that and have unlimited production, we can only expect to have lower prices, whether it be a two-tier pricing market-clearing system of some kind,

that's eventually what you get back, a supply management program.

Mr. Horner: In that same line of questioning, I would like to know how your basic quota works. Who controls it; the value of such? We had a discussion about it earlier this morning, but for the record, I want you to explain.

Mr. Anderson: Okay. In this mountain area, we have, I guess, several basic plans or quota plans that are in operation, depending upon the cooperative and the market that's involved. Within the WDCI organization, we currently have two base or quota plans from the predecessor organizations coming in. The cooperatives have the involvement in them; in the eastern side of the market, the Denver area, it's been through the former Mountain Empire Dairymen's Association. Nearly all of the milk in this market is under the membership of Mountain—formerly, Mountain Empire Dairymen Association—and has been able to have a participation by all farmers in a market-sharing arrangement in that base plan. Its base had—it was, I guess, originally allocated or established based upon a history and there is opportunity for marked adjustment in a fall period where there's some—to be sure you produce the base that has been allocated to you, so we don't come up short in the fall, but also there's some market-clearing charges for overproduction as well.

On the Salt Lake side of the organization now, the former IMPA organization, the organization of that market is considerably less. There's a lot more milk in there. There's a lesser—or greater number of farmers that are not part of our cooperative. They were with those other cooperatives and might have their own programs. In that area, the base plan has been a price-sharing plan or sharing of the Class I market, but the surplus outlets are closer at hand with their other own manufacturing plans, closer; as well, it's not quite the cost of disposal there.

Mr. Horner: One more question. I need your impression about the 5-billion-pound-trigger point for price supports.

Mr. Anderson: In price, as far as price supports and where is the trigger on that?

Mr. Horner: Yes.

Mr. Anderson: I guess I'm trying to—everybody we had worked on that when I was AMBI—where it is—where is that number. And if I recall right, we originally had talked about it being a number higher than 5 billion. Seems like we were talking 7, 7 1/2 billion that might be needed. I think the issue they've got to look at is there are certain government programs that are government purchaser's product for—or would provide product for that and that has to be calculated in there. But unless we also calculate in that number a value or a volume that's equal to the amount that's allowed to come in under import quotas, increase and import quotas or whatever you have, there's no protection for the domestic industry. I know we've heard USDA say at the time you have support programs to protect you, but if that's not included in a minimal amount, I think it probably should be higher than 5 billion, but I don't have a specific number.

Mr. Williams: For the record, are you favoring a voluntary or an involuntary pricing control?

Mr. Anderson: Supply management?

Mr. Williams: Yes.

Mr. Anderson: I think, as a group, as an area, we look at the overall market situation. We've got to look at participation by all dairy farmers. Mandatory of, but participation by, the total market because it is a national market, as we pointed out.

Mr. Camerilo: Leland, I have a couple of questions. First, on page 4 of your testimony, you indicate a disaster—or a kick-in program based on history. You stated that this is a supply management program that should be mandated. Should there be anyone who has any leeway?

Mr. Anderson: I guess this is the point—the purpose of including the word "mandated" in there was under the current program, we have—the Secretary has the authority to implement ongoing programs, if he so chooses, but is not mandated and, consequently, we come to the frustration, what happens beyond 1987? Where do we go? And we say the Secretary has the authority, but it doesn't look like he intends to exercise that authority. I think that triggers the point, he should have a mandate that says if this happens, then you have a standby so we don't have to go through the legislative process each time to try to argue out what's going to happen at that time. We know what will happen and it is established implementation and that's the reason for the mandate.

Mr. Camerilo: A second question, Leland. On the dairy pricing index, you have an opportunity through your work to study carefully that index. This is NMPF index. For the commission, do you see any weak points in that index that you might want to change at all?

Mr. Anderson: I guess I personally don't see. I'm sure there are weak points or points others might have seen. The index is prepared by National Milk Producers Federation, is the one that's been worked on by economists in the industry for many years, and I believe have done a pretty complete job in doing so. I don't know of any specific areas that should be addressed further, but I'm sure that individuals might find some. From my area, this was not considered and this may have an impact. Tom, I hate to have a specific—I don't have any specific recommendations.

Mr. Camerilo: One more question, in the area of casein. Gordon, I certainly concur with you that casein is an import loophole. Do you have any ideas? What kind of legislation do we need to close that loophole. The national milk proposal would limit imports to 50 percent of the last 5 years.

Mr. Roberts: I don't have any alternative recommendation.

Mr. Camerilo: Just take a good look at it?

Mr. Roberts: Just take a good look at it.

Mr. Rutherford: At least it ought to be accounted against the cost of a program if the product is being offset by a commodity coming in. What I thought you were referring to, is that some credit ought to be given.

Mr. Roberts: Yes, I think that's true.

Mr. Anderson: Let me comment on that just a minute too. One thing that's frustrated all of us in the industry over the

casein issue, we have to remember that casein is a high quality of dairy protein, but it's the importation of it outside the guidelines that's troublesome for us. When you take an import under the guise of a chemical and then convert it to a food use, after it is in here to avoid specific restrictions, that's the troublesome thing and that's what I think we have to keep hammering at to make sure we have that identification of what it really is and what it's being used for.

Mr. Douma: Yes. Leland, with your experience with WCDA, obviously, you have a two-tier pricing system. In your opinion, is that a supply management program?

Mr. Anderson: That is a form of a supply management program. And in that case, the price being paid for the surplus milk being a pact that says what point they can get the recovery to the value for it and what its value is. In the former IMPA territory, for instance, that's a cheese yield price. That's what cheese will bring, and how much cheese we can make out of that milk, based upon a protein test. In this market here, in the Denver area, it's the cost of transportation to a cheese facility; and the resulting price from that factor that—it's a market-clearing price, is what we're really talking about.

Mr. Douma: But could you relay that over to a national program as a two-tier price, market-clearing price, with market-ing CCC?

Mr. Anderson: You could, if you wanted to identify CCC as the market-clearing entity and/or beyond that, beyond what the government needs might be. I'm saying, for government needs and government obligations for import, if you're going to try to maintain a total balance, you know, may be less than that.

Mr. Douma: Truly, to get to supply management, don't you need some price to producers which is considerably less?

Mr. Anderson: That's probably true, yes. The problem, if you—to make it for the market-clearing factor, you're saying?

Mr. Douma: Right.

Mr. Anderson: For the market clearing, that's probably true. Now, where is that point; it's different for different people. There are some who can produce milk for \$2-\$3 less than somebody else might be able to and so well, you say, okay, here's what the market-clearing price is, and they say, "Well, we'll go ahead and produce, and that may have to be adjusted, based on the market price."

Mr. Douma: Historically, western states have increased in production and many supposedly have quota systems in California. They had the base programs here in this area and a lot of western states have base programs. History would say they certainly weren't supply management mechanisms.

Mr. Anderson: It was a mechanism of allocation of Class I.

Mr. Douma: Allocation of usage, yes.

Mr. Anderson: Allocation of usage, probably. I would say in this market here, though, the Denver—from what I've seen in the Denver market—and Tom can probably give some impact on this or enlighten on this better than I can, but the plan here has been a supply management plan of trying to

maintain some protection balance with the usage because of the cost of removal of the surplus. They're not recently available on the market for them, the surplus.

Mr. Rutherford: We'll take one more question. Bob McSparran?

Mr. McSparran: In your presentation, realizing there are different geographical considerations in different parts of the country, do you think a base program would be a viable supply management tool to be used nationally?

Mr. Anderson: I think a base program of some type is a viable alternative for supply management or for production market value.

Mr. McSparran: Similar to what you're using here?

Mr. Anderson: Similar to what we're using. I think it has some value.

Mr. Rutherford: Gentlemen, I thank you very much. You gave very important testimony. Next, I would like to ask Dick Robinson of Robinson Dairy, Denver to come forward. Dick, we came by your operation late last night and the lights were still burning.

Mr. Robinson: Mr. Chairman, thank you for the opportunity to testify this morning. My name is Richard Robinson and my address is 51 South Fairfax Street in Denver, Colorado. I am chairman and chief executive officer of Robinson Dairy, Inc., a handler who operates a regulated plant, serving the Front Range of Colorado and the mountain area.

It's my understanding that the purpose of this meeting is to hear from interested dairymen in eight states in the west, as to their concerns regarding the Federal Dairy Program, its relationship to new technology, and its effect on the family farm.

Even though we do not presently milk any cows, my family has been involved in the dairy industry in Colorado since 1885; and during many of those years, not only processed and sold milk, but maintained a large herd of registered Holsteins. We do have an interest in seeing that the family farm remains viable.

The past few years have been a mixed bag, as far as our industry is concerned. We've seen great change in the large multinational processors, either through mergers, leverage buyouts, or abandonment of the business altogether. The number of processing plants has diminished and those that exist today have continually updated their technology to include new methods of processing, new products, and innovative distribution methods.

Our products today compete with other food products that in the past were categorized as treats or snacks; and today, with vitamins added, are considered substitutes for milk.

We must battle for space in the retailers' dairy case against new nondairy products that give the grocer added margin. We have seen our suppliers of raw products change in a similar way, as the processors. Mergers and failures have been the rule, rather than the exception. The prices we pay for our raw product have fluctuated without reason. We have lived through whole herd buyouts, paid diversion programs and premiums.

I tell my friends that operating a dairy plant is a snap because: The price we pay for raw products is dictated by the Federal Order Program; we are a union plant and our wages are set by negotiations with the union; and, finally, we have a State Milk Control Law which dictates our pricing policy. So all you have to do is show up and the place runs. However, we really know that our company is complicated and volatile, but it's still a great business.

With all of the above, I see great opportunity for all of us in the coming years. I do have some recommendations I would like to put into the record. I'm sure you have heard them before in your other hearings, and maybe as a result of these meetings we can all get on common ground to work towards a goal of increased success for our concerns.

First, any policy developed as a result of these hearings should encourage increased consumption and sale of our products. Too often we are looked at as a commodity broker. Through promotional programs, let's make milk a valued product. I know that with stable pricing and promotion, our products will sell.

We cannot allow great fluctuations in prices, both at the retail level and at our purchasing level, as processors. I truly believe that if we can attain stability in our pricing, we can promote our products to benefit the producer as well as the processors. We have seen some of this in the past few years, with relatively stable pricing and a competitive atmosphere with other food and beverage products.

Next, we can't live with major changes every year in the Federal Milk Support Price Program. It's interesting to note that as soon as a policy is adopted, groups get together to change it. Consistency is necessary. I understand that even today, groups are asking for changes in the current 5-year program, even though it is only in its second year. It's hard for us to plan and commit assets when you don't know what the policy will be from day to day.

I believe that the plan that is in existence should be allowed to run its course. We will soon find out if shortages are to occur. And if this does happen, the basic theory of supply and demand will prevail and prices will be adjusted accordingly.

As we all know, we're one of the most regulated industries in existence today. We have got an obligation to the consumer to market a wholesome product, free of any contamination. I think our industry has done a superb job in this area and everyone from the producer to the processor should be commended.

Many regulations, however, make no sense and, in effect, are restrictive. I am not only talking about price regulation, but the other areas such as standards of identity, labeling, and dating. For example, if you read the nutritional label on a package of homogenized milk with only Vitamin D added, you would swear you are reading a prescription from your doctor. Compare it to a can of Pepsi-Cola. We must be able to market our product in a way that we can maximize potential as compared to competitive products, such as soft drinks.

We recommend a review of all these regulations, with a marketing view in mind. Perhaps many new products can be

developed mixing dairy and nondairy products and still call them dairy products. Maximizing the use of fluid milk in all types of products will help curtail the surpluses we have experienced.

Class pricing formulas for milk and milk products should be continually reviewed. Emphasis has been primarily on the marketing of fluid milk and maybe we should view dairy products as a whole, rather than only as bottled milk.

During the next decade, I am sure production technology will evolve that will increase milk produced per cow. We must be ready for this or we will have another cycle of surpluses, diversions, and whole herd buyouts.

I believe this technology will enhance the viability of the small family farm. We must all cooperate in promoting this technology. It bothers me to see so few agricultural colleges and universities emphasizing dairy production and dairy science. A private/public cooperative effort must evolve if agricultural education is to succeed.

The handlers also must continue to upgrade their production facilities. Volume has always been the key word in our business and maybe this isn't the best way to approach what we do. We have a great natural food that really has only been exploited as fluid milk. Let's look at what else we can do with milk. Our company's approach has always been to sell what the consumer wants. Sometimes this means starting small and developing the product. It's worked for us and has been profitable.

It's really difficult in 10 minutes to detail every idea that we have, so really, I've only touched on what I believe is a national dairy policy from a handler's viewpoint.

I guess the main points should be addressed in one line or less are: 1. stability of pricing; 2. review of regulations; 3. encourage innovation and new technology; and 4. become marketing-oriented.

I thank you for this opportunity to appear today, and I truly hope something will come out of these hearings, other than a voluminous report. Thank you very much.

Mr. Rutherford: Thank you, Dick. I can assure you, it will be a large report by the time we get done with the hearing record, but, also, we're all committed to coming out with something that's hopefully going to be beneficial in the long term. Also, I would like to say, we would be very happy to receive in writing your other thoughts and ideas. I would sincerely ask you to submit them to us.

Mr. Robinson: I should also mention, there would be other handlers here, but there is a milk controlling convention in Calgary, Canada.

Mr. Williams: On the technology, would you be willing to take BST through your plant now?

Mr. Robinson: I'll comment with you on that later, if I could, please.

Mr. Rutherford: Any other questions?

Mr. Camerilo: You made a couple of very interesting points on milk price stability. Could you and MIF get us some information as to how you would accomplish the stability? You may have some ideas.

Mr. Robinson: All right. We do have some ideas. Maybe I'm speaking more from my point of view than MIF, but ups and downs cause us more problems than stability, and they really do. We live in a—we're in a competitive area. We really are. We kill each other when we get back, but the worst thing, even worse than my competitors, is a heavy fluctuation of prices where we have to raise 1 month, drop the next, raise the next. We can't plan. We don't know where we are.

We can plan for the rest of what we do. We have a labor contract that will tell us what we do for 3 years. The rest of our ingredients, our supplies, don't fluctuate that much. The basic fluctuation that we have is cost of raw products, which is 60 or 70 percent of what we buy.

Mr. Camerle: So some kind of stability, not only long term, but seasonal?

Mr. Robinson: Even that would help, yes, season is important.

Mr. Camerle: On the standards of identity and labeling, you have some ideas there. Could you give us those that you think are big red flag problems so we can review them?

Mr. Robinson: I sure will, and I'll make a note of that so I will remember.

Mr. Douma: Yes. On stability of prices, during the period of the 1980's we had huge government surpluses and we also had very stable prices. But we still had a problem with the program.

Mr. Robinson: Right. I understand what you're saying. And really, I'm not sure—the prices were stable, or they were relatively stable. We have some prints that adjust the numbers over and above the producer price, and I think during the period of the 1980s, we did see the stability in the pricing. It wasn't—maybe I'm looking back further than that, but the big thing we did is to know we can plan for this year, next year, know which way we're going to be going.

Mr. Douma: We're at a supply/demand situation without government purchasers. Do you think it's possible to have stable prices?

Mr. Robinson: I think you're going to need some government intervention. I don't think you can totally have a pure supply/demand situation. Free market is what you're talking about, with no controls, no.

Mr. Douma: Even with a true support program as a foundation. When it isn't kicking in, is it possible to have stable prices?

Mr. Robinson: I think so.

Mr. Douma: Year-round?

Mr. Robinson: I think, as Tom said, you're going to have some adjustment, seasonal adjustment. We can live with that, but monthly adjustments we have a very difficult time with.

Mr. Rutherford: Okay. Thank you very much. Gerald Aycock?

Mr. Aycock: You would allocate supply management of some type?

Mr. Robinson: I don't want to get in—I'm having enough trouble writing my business. I'm not sure I can—I think you have to have a supply management. We do it in our management. We only produce what we think we can sell on a daily basis, so—

Mr. Douma: Thank you.

Mr. Robinson: But I'm not sure how you're going to do it yourself.

Mr. Rutherford: Thank you, very much, Mr. Robinson. We appreciate your taking the time to testify. I would like to ask Ray Gibbons to come forward. Mr. Gibbons is a dairy farmer from Lewiston, Utah.

Mr. Gibbons: I'm a dairy farmer and a member of the WDCI board. And today, I'm speaking as a dairyman, and I'm not representing the views of the WDCI. Mr. Chairman, members of the committee, ladies and gentlemen, I should like to restrict my remarks today to just one area of the dairy industry, that being the management of the domestic milk supply.

Much of the current economic analysis suggests the successes of the dairy buyout will soon sink in a new flood of milk, accompanied by further price support reductions built into the government dairy program now in place.

After spending about 40 years in the dairy business trying to react to legislation designed to solve dairy problems and do it in such a way that the legislation could have a positive effect on my destiny as a dairyman, I am more convinced than ever before that if dairymen are ever going to have their problems solved, they are going to have to do it themselves.

In order for this to take place, I feel we must begin a program that is simple, workable, effective, and would at least meet the following suggested goals: One, recognize the need for some government involvement while minimizing government impact on pricing of our product and control of our business; two, induce dairymen participation without force or compulsion; three, benefit all dairymen, if not in the same way, at least in a positive way; four, be simple enough that all can understand the mechanics of the plan; five, be flexible enough that the level of participation can rise or fall according to the need; six, reduce milk production to manageable levels by reducing dairy animals without impacting the beef market negatively; seven, pursue a vigorous research, marketing, quality, and advertising program to increase usage.

If we are going to meet these goals, a different approach must be taken than has been taken in the past. We have experienced lowering supports, raising supports, freezing supports, production assessments, CCC purchases, diversion programs, whole herd buyouts, and still excess production dictates low prices and continued problems for the dairyman.

In the period from 1980 to 1985, we experienced three price support cuts totaling \$1.50 per hundredweight and farm milk prices dropped 8 percent. Associated Milk Producers officials indicate that during this same period of time, whole milk retail prices increased 6.3 percent, butter prices were up 8 percent, cheese retail prices increased 16.8 percent,

and ice cream retail prices rose 22 percent. If changes in retail prices of milk products had been matched to the changes in farm prices, consumers would have saved over \$10 billion during that period of time and the disparity continues today.

Granted, the buyout has headed us in the right direction; however, it needs to be continued on a more practical, intelligent, and fair basis. It needs to focus on reducing potential producing animals. Statistics indicate that about 35 percent of the buyout animals would have gone to slaughter through normal culling procedures without the buyout. This reduces the program's effect by at least one-third; however, it appears that approximately 940,000 dairy cows will be taken from the Nation's dairy herd by the program. Still, a better way needs to be put in place to manage cow numbers at a desirable level. I have felt for many years that a program to control the number of replacements coming into production would be many times more effective and less painful than trying to control producing cows or milk that has already been produced.

It appears that the buyout will bring the Nation's dairy herd from about 11 million head to just over 10 million. Theoretically, these cows would have 5 million heifer calves and 5 million bull calves each year. In reality, at least in my operation, the number of males is usually greater than females. Calving intervals generally run closer to 14 months than 12 months, and there is always some mortality in the 2 years before the heifers come into production.

I think 4 million replacements from 10 million cows would be a very liberal estimate. As pointed out before, about 35 percent of the Nation's dairy herd goes out each year in the normal culling process. This means that about 3 1/2 million replacements will be needed annually to maintain a 10 million cow herd. With 4 million replacement heifers available annually, there remains about 500,000 excess replacement heifers exerting an upward pressure on milk production each year. I realize that these are not exact numbers, but they represent an example of the potential growth of the national dairy herd, on an annual basis.

In order to manage the dairy program so that it can be profitable and also serve the government and consumers fairly, we need to remove some of these replacements before they come into production. I think this can be done without being too painful to dairymen, government, or anyone else concerned.

It's estimated that the total milk production in 1986 was about 145 billion pounds and this year it will be smaller. I would think it would be safe to say it will be at least 140 billion pounds. This equals 1 billion, 400 million hundredweight of milk. For part of the buyout period, painful as it was, we were able to live with a 50-cent-per-hundredweight government assignment on all milk produced. We don't even like the 25-cent assignment presently in effect. This 25-cent per hundredweight on 1 billion, 400 million hundredweight of milk will cost the dairymen \$350 million if continued for a full year and with very questionable returns.

I propose the 25-cent-hundredweight checkoff be continued and that the resulting \$350 million per year be used to control the number of replacement heifers. Some will be critical

of continuing a checkoff; however, if surpluses were eliminated, I feel quite sure we would be receiving at least \$2 per hundredweight more for milk as is justified to produce milk.

We have already established that there are about 500,000 too many replacements each year which contribute to surplus milk supplies. The \$350 million could provide a fund to pay \$700 per head, in addition to what they would bring for slaughter for all 500,000 head of surplus heifers.

I feel confident that a \$700 indemnity for heifers over breeding age or 700 pounds, or \$500 per head for heifers from 300 to 500 pounds would attract sufficient participation to get the necessary reduction in numbers we need. The 300 pounds' minimum would require considerable milk or milk product to bring them to this weight.

The government already has the machinery in place to handle the checkoff. A packing house affidavit showing kind and weight of qualifying animals before kill could be provided with the slaughter settlement and redeemed at ASCS offices. This would be a very minimal contribution by the government.

All of the money from the 25-cent checkoff would come back into the dairy community to those who chose to sell heifers. All dairymen would be eligible to participate. Those who chose not to participate would still benefit by receiving a fair price for milk, rather than a price continually depressed by surpluses. A much better price would probably be realized for remaining replacements and all parties involved would be benefited in a positive way. Even the beef industry would feel less pressure if part of the dairy herd were slaughtered at light weights, rather than as mature animals.

Imports will, of course, still present a problem, especially where Canadian cattle are concerned. I think Canada is the only place where there are cattle numbers with the quality and proximity to cause a problem. This is one more area where government help would be needed. This program could benefit Canadian dairymen also if they could be persuaded to put it into effect.

This is a program where the more milk produced, the larger the fund will become to indemnify animals to be slaughtered. Reduced production provides a smaller fund and less animals will be removed.

I believe that the principles suggested here, combined with a vigorous research, quality, marketing, and advertising program, can again provide a dairy program that we can be proud of and will provide for a healthy and profitable dairy community. Thank you for the privilege of testifying, gentlemen.

Mr. Rutherford: We thank you. That's a well thought-out program you've presented. Fred Douma?

Mr. Douma: Yes. On your numbers at \$700 for breeding H.F., for roughly a beef price value on today's market, you're talking about \$1,050, \$1,060, \$1,100 value at breeding age. What would the replacement heifer price be for dairymen that needed replacement? If you can get that kind of money at that age, what would your cost of replacement be?

Mr. Gibbons: They may be higher. That's part of the idea behind the program. I think, gentlemen, we've got to recog-

nize that sometimes we are our own worst enemies. And, as dairymen, we're involved in two enterprises, most of us; one of them producing milk and producing it so we can make a profit on it, and the other one is trying to see how many heifers we can raise from our cows, either to take care of our own replacement needs or to sell to someone else. I recognize that this will raise the price of replacements. That's what it's designed to do, to cut down the number of cattle going into the dairy herd. Once they go in, there's only one way of realizing the profit from them and that's to milk all the milk you can out of them and that defeats our purposes. It creates a surplus. It depresses prices.

Mr. Douma: Just to follow up on that, don't you believe that if we can reduce one of the input costs, and put out a cheaper bottle of milk that we can sell more product?

Mr. Gibbons: Hopefully we can. I would be grateful if we could sell more product, but it seems to me that we've got to police ourselves and produce less milk for a time, even if we reduce the numbers of our replacements down to a point where we've got a shortage of milk. We must remember, no program we have tried to this point has even begun to handle surplus production and we could soon get back to a position where we could produce all the milk that was necessary. However, statistics show we've got to produce less milk.

Mr. Laurie: Mr. Gibbons, just for my own interest, quickly tell us about your dairy. How many cows do you milk and do you raise your own feed?

Mr. Gibbons: Yes, we raise all of our own feed. We keep about 300 head of registered Holstein cattle. And I recognize the fact maybe there won't be too many registered cattle that would go out under this program; however, the bottom end would go and I think that would improve the dairy herd as a whole. Nationwide, if we could get rid of all of the bottom 10 percent, and that's where the surpluses come from, we would all be better off. Those 10 percent really don't make us a profit, but do create a surplus.

Mr. Mertens: I have a problem with your projections. You say that if we happen to miss on our projections, we're going to be in a short supply situation. The government will never let this short supply continue. Therefore, you run the real risk of running up imports. Once you open them up, they're very, very hard to shut off. That would be my biggest concern with this program. If you can remember, the increased consumption of cheese was never predicted to be as high as it was. If we had relied on predictions that culled heifers would average out everything, we probably would have been in this short supply situation and imports would have been brought in. We're not going to tell people we're short, drink skim milk.

Mr. Gibbons: I don't say there are no flaws to this program. I can't think of any programs they've given us in the past, or that we have come up with that haven't had some flaws we've had to live with. I believe this—as I stated to begin with—is a simplistic program and sometimes simple programs work far better than complicated programs, such as we have been given in the past.

Mr. Rutherford: We'll take one more question. Bob Foster?

Mr. Foster: Do you think it's necessary to pay as high a price and still get the same result? I realize you're trying to do two things and one is raise the cost of replacement.

Mr. Gibbons: These figures I come up with, maybe could be adjusted. You could check off less and only pay \$300, but 350 million would remove the 400 or 500 thousand head, at \$700 apiece, and I believe that's about the number of excess heifers we raise. We've always been able to produce from 10 to 15 percent more replacement than it's taken to keep our herd at a manageable level. I just propose that this is a means of bringing it down. It will put money into the dairymen's hands who sell heifers, and also put dollars on the milk checks of those dairymen who buy replacements and sell milk. I hate to see heifers slaughtered just as anyone else. I hate to see cows slaughtered, and all of our meat animals are slaughtered. Our hogs are slaughtered at 6 months of age, and lambs and a lot of steers are slaughtered at the same age these heifers would be. I've been criticized that this is a program similar to killing the little pigs back in the 1940's or 1930's, whatever it was, but we slaughter our animals at a time when they fit our needs and will do us the most good. I think when we can accept, as dairymen, the fact that we can raise more replacements than we need, maybe we can do something about it.

Mr. Rutherford: I thank you very much, Mr. Gibbons. I've listened to what you have to say, and you've given a lot of thought and taken a little courage to lay it out the way you have, and we appreciate it and thank you very much. Wynn Zundel will be the next witness.

Mr. Zundel: Mr. Chairman and members of the commission, my name is Wynn Zundel. I own and operate a dairy farm in Garland, Utah, and serve as chairman of the Dairy Advisory Committee in the Utah Farm Bureau Federation. I've been a dairyman for some 35 years. We appreciate the time and effort that each of you, as members of this special commission, are devoting to conducting these hearings and preparing your report. You are performing an important service for the dairy industry, and I trust the time we spend together is worthy of our efforts to be here.

On behalf of the Utah Farm Bureau Federation, I would like to offer comments regarding four specific aspects of Federal dairy programs; namely: milk price supports and surplus purchases, foreign imports, marketing orders, and promotion and research. Utah Farm Bureau represents over 1,000 Utah dairymen and also speaks for the broad spectrum of agriculture in our state. Official Farm Bureau policy is carefully reviewed each year and approved by voting delegates from each county representing virtually all of the commodity interests.

Our policy language regarding the dairy program is straightforward and yet provides latitude for additional comment. And I quote, "We favor a return to a market-oriented dairy program. The price support level should be adjusted according to the amount of net dairy products purchased by the Commodity Credit Corporation. The amount of CCC purchases should be reduced on a gradual basis to a point where purchases equal consumptive use of government agencies." The role of the support price is to provide a floor that protects producers against excessive price drops and to

ensure for consumers an adequate supply of wholesome milk. This next sentence, personally, I would like to emphasize. It is not to provide for income enhancement that cannot be sustained in the marketplace.

A flexible support price is the key to a market-oriented dairy program. This concept is not new to the dairy industry. It operated effectively from 1949 to 1977. Authorized by the Agricultural Act of 1949, the flexible price support program reduced excessive price variability, provided an adequate milk supply, put a floor under producer prices, and kept government purchases at reasonable levels. No other agricultural program has operated so efficiently for so long. If the original concept of the 1949 Act had continued in effect from 1977 to date, with the exception of the parity, we would not have had the unneeded buildup in the nation's dairy herd. Dairy men would not have been receiving false signals to expand production.

Under the Act, the Secretary of Agriculture could maintain, raise, or lower the support price within certain parameters. It was this authority that provided the act's price discipline. This authority, however, was reduced in 1977 and later removed. When this authority was altered, heifer numbers began to build. Additional resources were unnecessarily channeled into the dairy processing sector as well. Several plants were built that manufacture products sold exclusively to the CCC. Excessive support prices of the late 1970's to early 1980's created a contrived demand for expansion, ultimately leading to such drastic policy maneuvers as the diversion program and the current dairy termination program. Such radical and costly measures would not have been necessary if the flexible support price had remained in place.

The flexible support price had a stabilizing influence on production. During the period from 1949 through 1977, the secretary left the support price unchanged for periods of 2 or more years on six occasions; maintained the support level at the minimum for 4 consecutive years; raised the support price 20 times; and lowered the support price 5 times. Each of the five reductions in the support price brought about a decrease in government purchases. Maintaining the support level for periods of 2 or more years served as another disincentive to expand production. False signals were minimized, and the industry was relatively stable.

We recognize that members of this committee have seen these statistics before, but we draw your attention to them again to emphasize our point.

During the 29-year period, CCC purchases averaged about 5 billion pounds milk equivalent per year, compared to an average of over 12 billion pounds in the last 7 years. The dramatic shift came when upward price support adjustments mandated by the Food and Agriculture Act of 1977 began to be implemented in 1979. Attached are some USDA charts and Exhibit A.

Another test of a program is whether the average price for manufacturing milk equals or exceeds the support price. Producers prices are highest relative to the support price when this occurs. This favorable situation is most likely to exist when CCC purchases total under 7 billion pound milk

equivalent. Such a program may not be in the best interest of plants wanting to sell to the CCC, but price support programs should not be designed to enhance the income of those who choose simply to farm the program.

It is significant to note that during the 30-year period from 1949 to marketing year 1978-1979, the average price received by producers for manufacturing milk equaled the support price in 2 years; was less than the support price in 4 years; and exceeded the support price in 24 years.

Ever since the 1978-1979 marketing year, the annual average price for manufacturing milk has been below the support price. With this trend sustained over 8 years, some producers now seem to believe that the purchase level since 1980 is normal, rather than abnormal, and that producer prices relative to the support price are also normal, rather than abnormal. Many of these are producers attracted into the dairy industry by artificially contrived price signals that have tended to subsidize economic inefficiency.

A flexible support price is the basis of the American Farm Bureau's current dairy policy as well, which reads in part, and I quote, "We support a dairy price support program which will bring supplies down to demand levels. We favor a system where the price support level would be automatically adjusted according to the amount of net dairy products purchased by the federal government." The authority, to adjust the price, should reside with the Secretary of Agriculture who, with ready access to data on CCC purchases as a measure of production surpluses and deficiencies, is able to make an unbiased, business decision to adjust the support price either up or down, as needed.

We recognize that the present dairy program is returning the dairy industry to a supply and demand balance, but we are opposed to another dairy herd buyout, in lieu of reasonable and necessary cuts in the support price. The dairy termination program has been very costly to the dairy industry, both in terms of our pocketbooks and our public image as well.

Another concern being felt by Utah dairy men relates to imports of foreign dairy products. Foreign cheese makers are not subject to FDA production standards and, therefore, are able to produce varieties of cheese that cannot be manufactured in the United States. Furthermore, increasing imports of casein used in the manufacture of both food and nonfood products appear to be cutting into domestic markets. In light of these facts, and I quote, "We support an assessment on imported milk and milk products based on whole milk equivalent equal to the per hundredweight amount collected from U.S. dairy men." Foreign producers marketing dairy products in this country must not be subsidized by our efforts to advertise or bring excess production under control.

It is a common practice for most European governments to heavily subsidize their dairy industries. Subsidized foreign dairy products have unfair market advantage when imported into the United States that must be counteracted with tariffs to offset the effect of the subsidy in our domestic markets. And I quote, "Countervailing duties should be imposed on imports which are subsidized and the U.S. government should not waive such duties until it finds the production or export of the commodity exported to the United States has

ceased to be subsidized. We support legislation that would allow countervailing duties to be imposed quickly when such subsidies are proven." This is especially true for cheap casein imports used to make imitation cheese. Again I quote from the Farm Bureau, "Whatever measure we ultimately take to restore price competitiveness in the marketplace, we feel strongly that the efforts of U.S. dairymen to discipline our industry not be sacrificed in trade negotiations. We recognize the General Agreement on Tariffs and Trade as the principal international forum governing world trade. The United States should aggressively seek relief through GATT in stopping the use of export price subsidies and export financing subsidies by the European Community shipping dairy products to this country." U.S. dairymen have the ability to be highly competitive internationally. The industry would be better off if all countries eliminated programs that distort trade or give foreign farmers an unfair advantage through subsidies and import protection.

Thirdly, I would like to comment on legislation introduced in Congress in 1986 and again in 1987 that would merge the current 44 Federal milk marketing orders into one order. Several options for determining quotas and allocating pooling have been proposed.

We oppose the formation of a single market order on the principle of economic efficiency. Subjecting all regions to the same administered pricing would distort the economic signals being sent to producers in various regions all over the country. Producer prices would rise in regions already hampered by excess capacity, thus exacerbating the problem even further by encouraging expansion and new entities. Conversely, a single order would tend to depress prices in regions where expansion is needed. A detailed analysis of the long-term effect of a national milk order prepared for the American Farm Bureau Federation suggests several difficulties that would be encountered in administering such an order. And that study is attached to this testimony.

We vigorously oppose mandatory production controls administered by the Federal Government. If quotas or base programs are necessary, they should be developed on a regional basis with producers and their handlers, whether cooperative or proprietary, all working in concert to discipline themselves and produce for the market. Production contracts have worked well for years in the other segments of agriculture. Vegetable producers, for example, demand a contract from their processor that stipulates a minimum price for a designated volume. The key is discipline. We cannot continue expecting the government to purchase all our surplus milk just because we have produced it.

Farm Bureau believes in the American private, competitive enterprise system. Government should provide only minimum aid and control and should operate impartially in the interests of all. Long-term dairy policy goals should focus on reducing, rather than increasing, Federal administrative involvement in the industry.

Finally, I would like to comment briefly in favor of continued dairy promotion and research activities. And I quote, "We support one national dairy promotion program operated by the congressionally designated 36-member National Dairy Board." Duplicate efforts by UDIA and the National Dairy

Board are unnecessary and unduly expensive. Further legislative action may be necessary to specify that only one board is necessary.

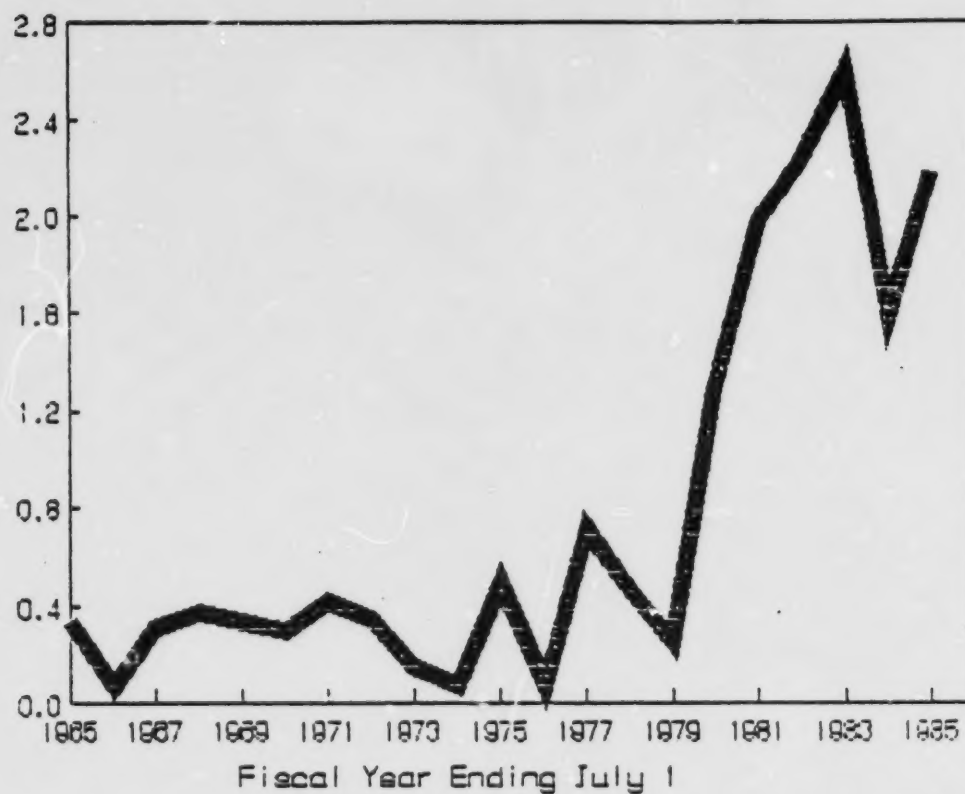
This isn't in my written testimony, and this is just personal, but my own personal feeling is that more of our checkoff dollars should be channeled into research instead of maybe advertising. And I'm glad to see that there seems to be that happening. We need that research on new products, new ways to process this milk, so we can get it to the consumer cheaper. And this problem with the two boards—this is a personal comment. If they need a coin to flip to see who stays home and who goes to the meetings, I'll be glad to supply it.

In summary, Utah dairymen would like to retain the purchase program with a flexible support price. They do not embrace one Federal order or national quotas, and they do embrace promotion and research.

Now, Mr. Chairman, I know that there are not many details and mechanics to accomplish this, but this is a policy statement of the Utah Farm Bureau. Thank you.

GOV'T EXPENDITURES ON PRICE SUPPORT

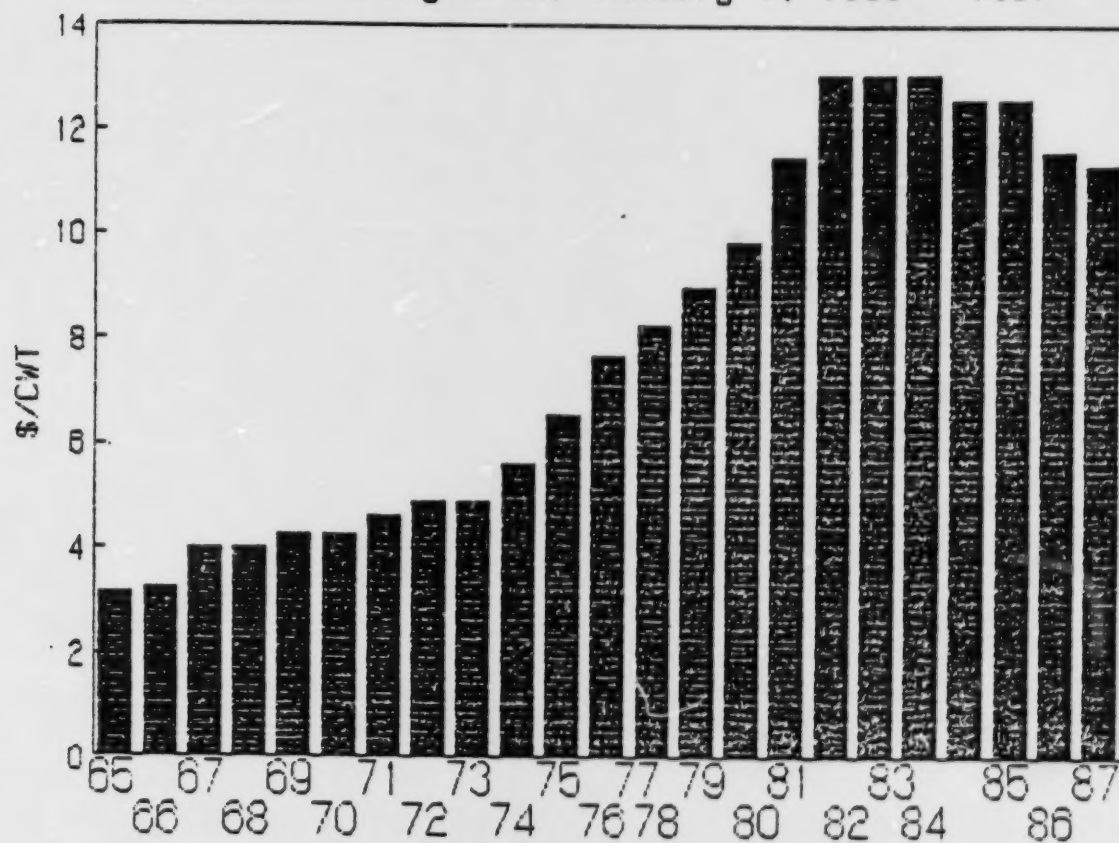
Billion Dollars, 1965 - 1985



Source: AMS & ERS, USDA

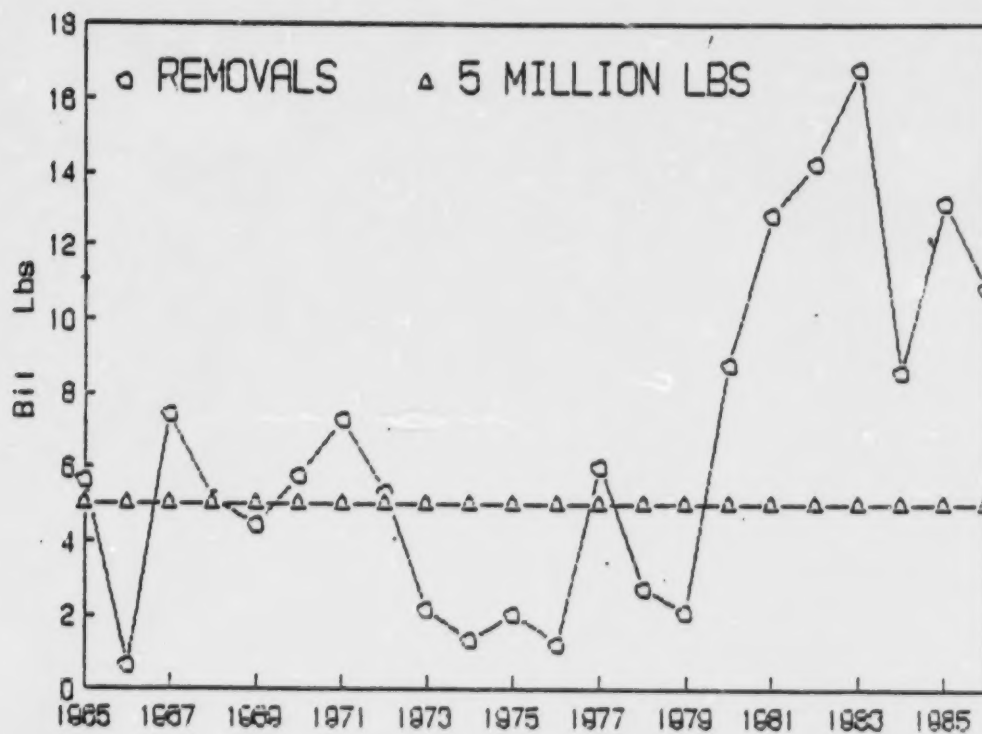
TRENDS IN U.S. SUPPORT PRICE

Manufacturing Milk, January 1, 1965 - 1987



PRICE SUPPORT REMOVALS

Milk Equivalent, 1965 - 1986



Source: AMS & ERS, USDA

Legislation was introduced in Congress in 1986 that would merge the current 44 federal milk marketing orders into one nationwide order and provide for the pricing of reconstituted milk at a price other than Class I. Proponents of the legislation state that the current orders are working to the detriment of Upper Midwest dairymen, particularly in light of recent legislated increases in Class I differentials...and pricing of reconstituted milk could be beneficial to Upper Midwest producers.

The AFBF Dairy Advisory Committee, at its August 1986 meeting, requested that the AFBF conduct an analysis of the long term effect of a national milk order and reconstituted milk on dairymen by regions of the United States.

A NATIONAL MILK MARKETING ORDER¹⁾

This discussion of a national order is divided into five areas:

- * A Brief Description of Federal Orders
- * Some Recent Criticisms of Orders
- * A Case for a National Order
- * Some Problems; Some Possibilities
- * Some Implications and Observations.

A Brief Description of Orders

Federal milk marketing orders were authorized by the Agricultural Marketing Agreement Act of 1937. Currently, 44 federal orders regulate the marketing of about 70 percent of all milk and over 90 percent of Grade A (fluid eligible) milk produced in the U.S. About two thirds of all commercial dairy farms are affected by federal orders, California being the only major dairy state that does not have a federal milk marketing order.

Producers located in the 48 contiguous states marketing milk under federal orders account for all fluid grade milk marketings in 13 states, 90 percent or more in an additional 22 states, and less than 25 percent of the fluid grade milk marketed by producers in three states (See table, next page).

Federal milk orders were designed to assure an adequate supply of fluid milk at prices deemed fair to both producers and consumers and to assure orderly marketing. The authorizing legislation is enabling, not mandatory; that is, a majority of the affected producers supplying more than half of the fluid milk in the affected marketing area must approve an order before it becomes effective.

¹⁾ Includes excerpts from material prepared by Ed Jesse and Robert Cropp, University of Wisconsin, USDA, and AFBF Dairy Division. Prepared January, 1987 for the AFBF Dairy Advisory Committee

EXHIBIT B

MILK DELIVERIES, BY STATE OF ORIGIN, TO HANDLERS REGULATED UNDER FEDERAL MILK ORDERS, 1965

State and Region	Deliveries to Federal order plants				State and Region	Deliveries to Federal order plants			
	As a % of milk delivered to all plants		Number of Federal milk orders	As a % of milk delivered to all plants		Number of Federal milk orders			
	and dealers 2/			and dealers 2/					
	1/			1/					
	Fluid grade	All 3/ : milk		Fluid grade			All 3/ : milk		
Million pounds	Percent	Number	Million pounds	Percent	Number				
Maine	346	93	33	1	Kentucky	1,824	100	86	14
New Hampshire	338	96	96	1	Tennessee	1,828	99	88	13
Vermont	2,260	96	96	2	Alabama	539	100	99	?
Massachusetts	542	96	98	2	Mississippi	824	100	96	9
Rhode Island	40	100	100	1	East South Central	5,015	100	90	16
Connecticut	595	100	100	2	Arkansas	716	94	88	8
New England	4,121	91	91	2	Louisiana	866	98	98	?
New York	9,790	86	86	3	Oklahoma	964	91	85	?
New Jersey	448	97	97	2	Texas	3,823	99	99	6
Pennsylvania	8,311	88	87	3	West South Central	6,369	97	95	15
Middle Atlantic	18,549	87	86	4	Montana	?	2	2	1
Delaware	138	96	96	3	Idaho	1,250	85	53	?
Maryland	1,568	95	94	5	Wyoming	30	5/	24	5
Virginia	1,210	62	58	7	Colorado	1,029	5/	100	5
West Virginia	332	5/	91	4	New Mexico	1,044	100	100	5
N. Carolina	397	24	23	5	Arizona	1,299	97	97	2
S. Carolina	140	25	25	2	Utah	791	100	74	4
Georgia	1,282	100	100	8	Nevada	87	33	33	2
Florida	2,021	100	100	5	Mountain	3,535	87	73	13
South Atlantic	7,088	74	72	12	Washington	3,577	100	100	2
Ohio	4,261	99	89	4	Oregon	1,232	100	92	2
Indiana	2,025	94	86	7	California	99	1	1	3
Illinois	2,090	94	76	11	Pacific	4,908	24	23	5
Michigan	5,170	98	95	6					
Wisconsin	17,785	98	72	9					
East North Central	31,338	97	78	18	Alaska & Hawaii	0	0	0	0
Minnesota	6,934	97	65	7					
Iowa	2,512	95	64	9					
Missouri	2,288	98	82	12					
North Dakota	402	80	38	2	Total (U.S.):	97,732	80	70	45
South Dakota	767	100	43	5					
Nebraska	829	98	64	4					
Kansas	1,077	99	86	4					
West North Central	14,809	97	65	19					

1/ Total deliveries of milk by producers in each State to handlers regulated under Federal milk orders. Regional and total United States figures may not add due to rounding.

2/ Computed from data contained in "Milk Production, Disposition and Income-1965 Summary" published by the National Agricultural Statistics Service, USDA. NOTE: The Federal order plants to which milk from a particular State is delivered are not located necessarily in that State.

3/ Percentage Federal order deliveries are of milk sold to plants and dealers that is eligible for fluid use ("Grade A" in most States).

4/ Number of Federal milk orders under which milk from the State is marketed.

5/ Not published to avoid disclosing individual operations.

6/ The percentages reported for fluid grade exclude West Virginia.

SOURCE: "Federal Milk Order Market Statistics, March 1966 Summary," PHOS-315. For additional information, see page 9.

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The purposes of milk orders are accomplished through classified pricing and pooling. Milk is classified according to use. Class I milk is used for fluid beverages; Class II milk, for soft manufactured dairy products such as ice cream and cottage cheese; and Class III milk, for hard products -- primarily butter, nonfat dry milk, and cheese. The orders cover only Grade A milk, meaning that the milk is eligible for fluid sale under applicable health standards, even though it may not be used in Class I products.

Orders set minimum prices for each of the classes of milk established as follows:

Class III - The Minnesota Wisconsin Price Series (M-W Price) for the current month.

Class II - Determined by a specific formula, but usually around 10 cents above the Class III price.

Class I - The M-W price two months previous plus a differential (Class I differential) that varies according to the distance of the order from Eau Claire, Wisconsin. The Class I differential reflects (a) transportation costs from the major reserve supply area for Grade A milk, (b) the higher cost of producing Grade A milk relative to Grade B, and (c) the more inelastic demand for fluid milk relative to manufacturing milk.

Pooling is a necessary function because handlers (milk receiving plants) are obligated to pay for milk according to use, while producers receive a uniform, or blend, price. The blend price, the weighted average of the class prices where the weights are the percentage of utilization in each class, is determined by pooling the revenue from all milk within an order.

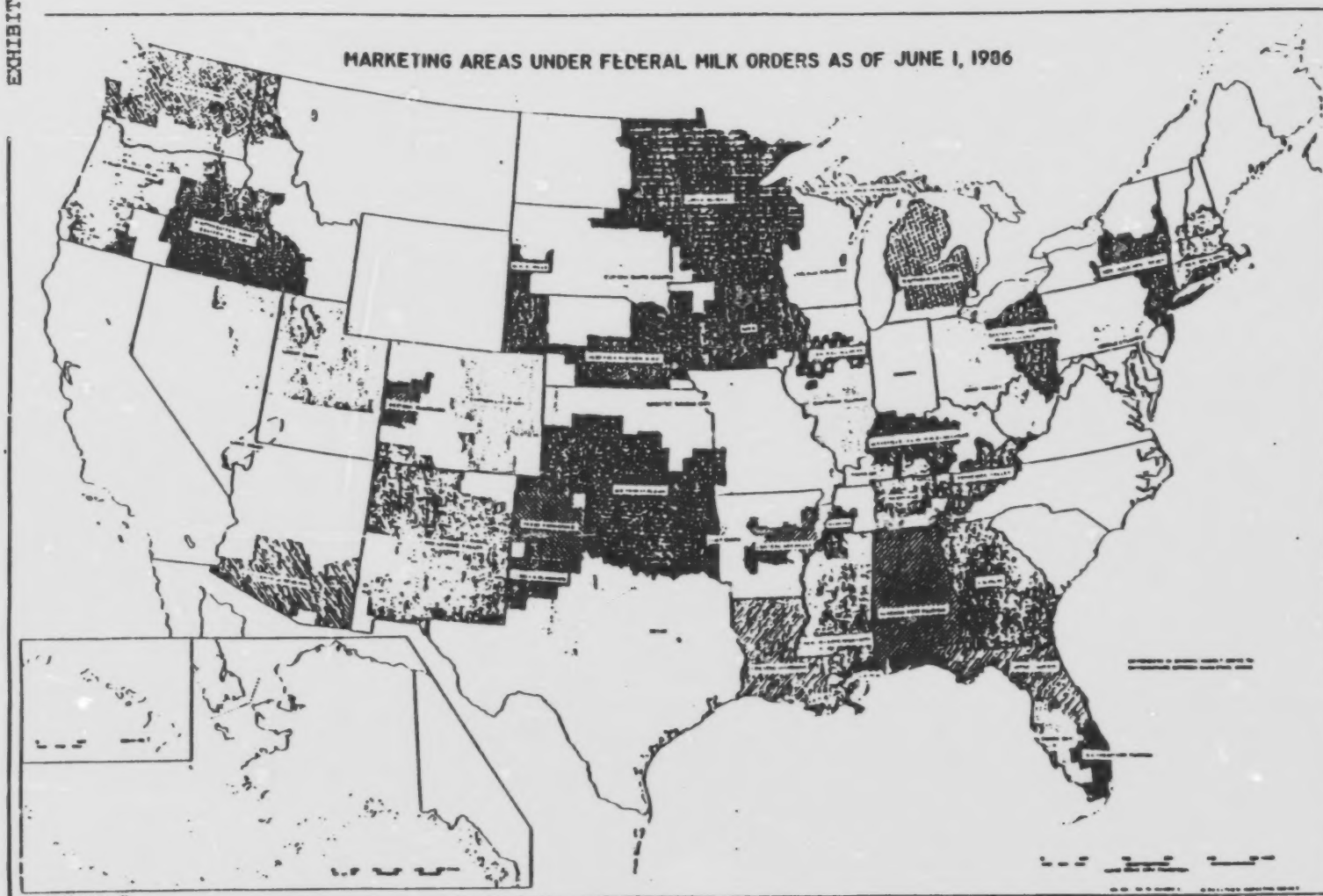
Given the way Class I prices are set and the way blend prices are calculated, Grade A milk producers' farm prices vary according to (1) distance from Eau Claire, and (2) Class I utilization rates. These two factors are positively related, meaning that blend prices increase with distance from Eau Claire more rapidly than Class I prices.

Each federal milk order sets minimum handler prices within a specific marketing area -- the primary distribution area for regulated handlers of fluid milk. A marketing area does not necessarily correspond to the supply area where the milk is produced. (See map next page.) Orderly marketing is defined as all handlers in the marketing area paying the same minimum prices, and all affiliated producers receiving the same blend price.

Some Recent Criticisms of Orders

Recently, marketing orders have come under increasing criticism. The main critics have been consumer groups and affected producers. Consumer groups have charged that milk orders cause inflated retail fluid milk prices. Some producers, primarily those located in the Upper Midwest, claim that orders interfere with the free flow of Grade A milk among regions and encourage uneconomical production of milk in the high cost areas. In particular, Upper Midwest dairymen complain that they do not equitably share in the high priced fluid milk markets of the South and Southeast.

EXHIBIT B



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Upper Midwest producer complaints intensified when the Food Security Act of 1985 legislated higher Class I differentials in 35 of the 44 federal orders. Increases were \$.78 to \$1.03 per hundredweight for orders in the South Atlantic region compared to only \$.08 for the Upper Midwest order and \$.14 for the Chicago Regional order. Many dairy leaders in Wisconsin charge that these increases will, in a time of surpluses, stimulate additional milk in the South and Southeast and continue to prevent the Upper Midwest from sharing the proceeds of the higher priced distant markets.

This perceived inequity heightened discussion of a national milk marketing order resulting in a bill to establish such an order.

A Case for a National Order

Despite mergers, producers in the Upper Midwest continue to have limited opportunities to share in the higher Class I prices and higher utilization in distant markets. Class I use in the Chicago Regional and Upper Midwest orders averages less than 20 percent. Given the low Class I differentials under these orders (\$1.40 and \$1.20 per hundredweight, respectively), minimum blend prices are only 20 to 30 cents above the manufacturing milk price (e.g., 20 percent Class I utilization times \$1.40 Class I utilization equals 28 cents).

In contrast, annual average Class I utilization rates in Southern and Southeastern orders are 80 to over 90 percent. Class I differentials in these orders are in the \$3 to \$4 range. Hence, minimum blend prices are \$2.50 to \$3.50 per hundredweight over manufacturing milk prices.

These glaring discrepancies would not suggest any inequity between Northern and Southern milk producers if each group were independently responsible for supplying fluid milk and carrying necessary Grade A surpluses. Blend prices, however, do not accurately reflect the responsibility for servicing fluid markets, especially when milk supplies are tight.

Southern markets are normally in deficit during parts of the year. Handlers or cooperatives supplying handlers pull milk from the closest source when deficits occur. This may be Wisconsin. More likely, it is a closer market, but Wisconsin milk often replaces that shipped to make up the deficit. The cost of maintaining these necessary Grade A reserves falls on Wisconsin and other Upper Midwest states. While Wisconsin Grade A producers receive the higher Class I price for deficit fluid shipments (the Class I price in the market they are normally associated with, not the receiving market), they are not consistently rewarded for carrying the necessary fluid reserves. This is the gist of the equity argument and the key problem that a national order would address by moving toward equalization of blend prices.

A national order explicitly recognizes the interdependence of the entire fluid milk marketing system. It recognizes that "local" markets are an anachronism kept alive by order defined marketing areas and order pricing provisions. A national order recognizes that those responsible for carrying reserve fluid milk supplies should be reimbursed for the associated costs.

Some Problems; Some Possibilities

While the concept of a single order is simple, implementing one is not. A single order could cause more inequity than it removes. Interregional

differences in production costs and marketing conditions must be recognized. Most important, incentives must be provided for supplying Grade A milk in the most economical manner, whether that involves local production or transportation from another region.

A single order could take on one of several forms. Some possibilities follow:

Single Pool. All producers would receive the same blend price. The national blend price would be calculated by dividing the total money paid by all handlers according to the national class prices by total producer marketings. All producers would share equally in the national fluid market. Regional differences in production costs and utilization rates would be ignored. All handlers would pay the same class prices regardless of location.

This simple national pool might appear highly desirable to producers in the Upper Midwest, as their blend prices would be higher than under the current system. But it would likely be unworkable. It would sharply drop blend prices in deficit milk production regions, cutting production even further. Production probably would expand in the Upper Midwest to more than offset these cuts, but the plan provides no incentives for moving milk to the deficit areas.

Single Pool with Location Adjustments. The simple single pool could be improved by using blend price adjustments to account for the location of producers relative to major areas of surpluses or deficits. A nationwide blend price would be calculated as in the single pool option, but producers would receive a location differential (plus or minus). The differential would depend on the producer's location relative to some basing point, and would be commensurate with the actual cost of transporting milk from surplus to deficit areas. The present system of milk orders uses such a basing point pricing system with Eau Claire as a base, though the current interorder Class I differentials do not cover the full cost of transporting milk. Intraorder location differentials are also used in the current system. Producers located near the major fluid market within an order receive a higher blend price than those located further out. These intraorder differentials are usually less than the full cost of transporting milk to encourage handlers to procure their needs from the smallest radius and thus minimize milk hauling.

Under this option, Grade A milk producers would share equally in the national average fluid utilization and in the cost of carrying reserve fluid supplies. In addition, local production in deficit regions would be encouraged relative to the single pool option, since the cost of moving milk is explicitly recognized. However, the setting of differentials and basing points would be sensitive issues. If differentials were too high and a single basing point in the Upper Midwest was used, then Wisconsin producers might be no better off than under the current multiorder system. If the differentials were too low, then deficits could be exacerbated and there could be little economic incentive to move milk when needed.

Utilization Pooling. Under this option, blend prices would be calculated for each order. Class prices used in this computation would be similar or identical to those currently used in each order. But weights would be the national average utilization rather than the utilization rates specific to the current orders. In effect, this results in pooling of utilization rates. Wisconsin would share in the national Class I utilization, but not in the higher Class I prices that exist in distant markets.

Utilization Pooling with an Equalization Fund. A variant of utilization pooling would narrow regional blend price differences by using an equalization fund. The equalization fund would be comparable to the producer settlement funds used in existing orders to account for differences among handlers in utilization percentages¹⁾. Blend prices would be calculated for each existing order as done now and a second blend price calculated using national average utilization rates. Handlers in markets where the market utilization blend price exceeded the average utilization blend price would pay the difference into an equalization fund. Handlers in low utilization markets would draw out of the fund. Alternatively, handlers in each order could pay into or draw from an equalization fund the difference between the order Class I utilization and the national average Class I utilization multiplied by the difference between the national average Class I price and the surplus (Class III) price.

Under this option all producers would receive the same blend price (adjusted for possible location differentials), but each order would pay for milk according to utilization within the order. This, in effect, overlays a national pool on the current regional order structure.

Some Implications and Observations

- 1) Properly structured, any of the single order options would benefit Upper Midwest producers compared to the current system by sharing to a greater extent in the national fluid milk market and being more equitably reimbursed as a major reserve supplier.
 - 2) Milk marketing is a zero sum game -- the benefits to the Upper Midwest would come at a cost to other parts of the country (Table 1). The perceived gain to Upper Midwest producers, however, would be less than the loss to producers in relatively high Class I use markets. Producers in Southeast Florida, for example, could face a drop of \$2.25 per cwt. in their blend price while producers under the Chicago order might gain about 58 cents. Pooling is a leveling process. Producers in the Northeast, the South, and the Southeast would strongly oppose any national order that lowered their blend price. Nationwide, 28 markets would have a decrease in the producer blend price under a national order (Table 1).
-
- 1) Under marketwide pooling, handlers with Class I utilization higher than the market average pay an assessment into the producer settlement fund. The per hundredweight assessment for high utilization handlers is the difference between their average milk value and the market blend price. Handlers with Class I utilization less than the market average draw out of the fund the difference between the blend price and their average milk value. When aggregated across all handlers, this pay in-take out process balances handlers' pool commitments with their producer commitments.

- 3) The goal sought by Upper Midwest producers has been underway for some time. Orders are being expanded and merged. In the early years of orders, refrigeration technology and highway conditions limited the movement of both raw and packaged milk. Hence, the geographical scope of marketing areas was small and the number of orders was correspondingly large. In 1962, the number of federal milk orders peaked at 83.

By the late 1960's, improvements in refrigeration and transportation enabled packaged milk to be economically distributed greater distances. Raw milk shipments of 1500 miles or more without quality degradation became commonplace. These changes increased competition among widely separated handlers and brought incentives for order mergers to maintain equal prices among competing handlers. As a result, producers located at greater distances from each other, having much different cost structures, were absorbed into the same federal order and received the same blend price. This change distributed the cost of carrying surplus milk among more producers. At the same time, the expanded order diluted some producers' gain from Class I utilization rates.

- 4) Federal order markets have long been an attraction to dairymen in low Class I use markets. But the glamour is wearing thin. Between 1970 and 1985, producer deliveries used in Class I in federal order markets dropped from an average of 61.5 to 43.2 percent. During this period, deliveries increased 32.7 billion pounds while Class I use rose only 2.1 billion pounds.
- 5) A single order would represent a major overhaul of the order program. Bureaucratic wheels move too slowly for this to occur soon. More likely are incremental changes involving further mergers and, possibly, regional orders.
- 6) Less radical order changes might provide benefits to Upper Midwest producers on par with a national order.
- * A reserve pool arrangement could be designed to regularly assess high utilization markets with the proceeds used to compensate Upper Midwest producers for carrying reserve supplies. A reserve pool arrangement operated for several years prior to initiation of the Upper Midwest marketing order.
 - * A multiple basing point pricing system could replace the Eau Claire-plus-freight Class I price. The current single basing point pricing system used for setting minimum Class I prices does not adequately reflect either relative milk production costs or locations of surplus Grade A milk. Without proper geographical alignment of Class I prices, distorted incentives for producing Grade A milk will continue with or without a single national order. Adopting additional basing points would lessen the need for raising Class I differentials to move milk, the ostensible reason for increasing differentials under the Food Security Act of 1985. This issue was addressed by the AFBF Dairy Advisory Committee at their February 1985 meeting when the Committee recommended a three to five basing point pricing system in place of the present single point pricing.

Table 1. Federal Milk Marketing Orders,
Selected Statistics; January-July 1986.

Orders	Fluid Differential	Class I Price	Blend Price	Class I Use	Difference Between Blend and All Market Blend Price
				percent	
<u>North Atlantic</u>					
New England	\$3.24	\$14.18	\$12.64	50.3	\$ + .57
New York-New Jersey	3.14	14.04	12.14	37.5	+ .07
Middle Atlantic	3.03	13.96	12.35	44.7	+ .28
Regional Average	----	14.05	12.31	42.3	+ .24
<u>South Atlantic</u>					
Georgia	3.08	13.69	13.17	79.0	+1.10
Alabama-West Florida	3.08	13.70	13.18	79.9	+1.11
Upper Florida	3.58	14.25	13.79	84.7	+1.72
Tampa Bay	3.88	14.36	13.88	83.8	+1.81
Southeastern Florida	4.18	14.67	14.32	88.9	+2.25
Regional Average	----	14.07	13.58	82.5	+1.51
<u>East North Central</u>					
Michigan Upper					
Penninsula	1.35	12.43	12.13	----	+ .06
Southern Michigan	1.75	12.74	11.79	40.7	- .28
East Ohio-West					
Pennsylvania	1.95	12.97	11.95	47.7	- .12
Ohio Valley	2.04	12.92	12.08	53.2	+ .01
Indiana	2.00	12.80	12.15	60.8	+ .08
Chicago Regional	1.40	12.39	11.49	18.8	- .58
Central Illinois	1.61	12.56	11.90	54.0	- .17
Southern Illinois	1.92	12.77	12.09	54.6	+ .02
Louisville-Lexington-					
Evansville	2.11	12.95	12.10	55.4	+ .03
Regional Average	----	12.74	11.74	34.4	- .33
<u>West North Central</u>					
Upper Midwest	1.20	12.23	11.24	12.5	- .83
East South Dakota	1.50	12.52	11.62	39.0	- .45
Black Hills	2.05				
Iowa	1.55	12.54	11.57	26.1	- .50
Nebraska-Western Iowa	1.75	12.74	11.73	36.7	- .34
Greater Kansas City	1.92	12.89	11.94	45.3	- .13
Regional Average	----	12.48	11.38	19.3	- .69

Table 1. Federal Milk Marketing Orders, Selected
Statistics; January-July 1986 (CONTINUED).

Orders	Fluid Differential	Class I Price	Blend Price	Class I Use Percent	Difference Between Blend and All Market Blend Price
<u>East South Central</u>					
Tennessee Valley	2.77	13.46	12.77	70.5	+ .70
Nashville	2.52	13.20	13.04	88.3	+ .97
Paducah	2.39	13.06	12.63	72.2	+ .56
Memphis	2.77	13.37	12.77	73.4	+ .70
Regional Average	----	13.39	12.78	72.8	+ .71
<u>West South Central</u>					
Central Arkansas	2.77	13.38	12.85	77.3	+ .78
Fort Smith	2.77				
Southwest Plains	2.77	13.38	12.30	46.9	+ .23
Texas Panhandle	2.49	13.43	12.47	60.2	+ .40
Lubbock-Plainview	2.49	13.52	13.20	87.0	+1.13
Texas	3.28	13.79	12.80	63.3	+ .73
Greater Louisiana	3.28	13.88	13.20	76.9	+1.13
New Orleans-Miss.	3.85	14.34	13.31	65.0	+1.24
Regional Average	----	13.79	12.85	65.2	+ .78
<u>Mountain</u>					
Eastern Colorado	2.73	13.55	12.63	59.4	+ .56
Western Colorado	2.00	13.08	12.44	68.3	+ .37
Southwestern Idaho-					
Eastern Oregon	1.50	12.58	11.30	16.5	- .77
Great Basin	1.90	12.97	11.98	43.6	- .09
Lake Mead	1.60	12.67	11.92	45.7	- .15
Central Arizona	2.52	13.59	12.43	53.9	+ .36
Rio Grande Valley	2.35	13.42	12.55	62.4	+ .48
Regional Average	----	13.32	12.20	48.3	+ .13
<u>Pacific</u>					
Puget Sound-Inland	1.85	12.92	11.71	33.4	- .36
Oregon-Washington	1.95	13.02	11.79	38.1	- .28
Regional Average	----	12.97	11.75	35.5	- .32
<u>All-Market Average</u>					
		13.41	12.07	41.1	---

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Mr. Rutherford: We thank you very much. It's a well thought-out statement with a lot of supported data which will be a big help and that will be included in the hearing record. Questions? Bob Foster.

Mr. Foster: A couple of questions. I was wondering if your position would preclude an economic adjuster, rather than one based on CCC purchasers directly.

Mr. Zundel: Yes, I can't inform the bureau of really having come up with this, but personal policy, I see no reason for an economic adjuster. And my respects to the National Milk for their dairy specific policy, but in my estimation, all that is is a price enhancement program. I don't think a—I don't think anything based on cost of production, you could start off at one point and give the Secretary of Agriculture permission to move it up or down. It's really to control the market. And when we start putting together formulas, somebody has to figure them. It's different all over the United States and all it does, I think, is make more bureaucratic red tape.

Mr. Turba: You speak quite highly of the Agriculture Act of 1949, spelling out in great detail how it's worked well until it was changed in the 1970's. At that time the minimum support level was raised to 80 percent, rather than the flexible 75 to 90 percent. Are you suggesting that had we stayed at the flexible 75 to 90 percent, we would not have our present problems? If so, by returning to that concept of 75 to 90, wouldn't we resolve some of our problems?

Mr. Zundel: I don't know if 75 to 90 are the appropriate numbers, but if we had left that so the Secretary could have lowered it in those times of rising CCC's, we would have had less of a problem. I'm not going to say it would have taken care of it completely, but I think it would have given the right analysis that a farmer, when he goes to his banker, and he looks and the support price was there and it was adjusting every 6 months, regardless of what the supply situation was for the money float, and as I stated in here, that we should return to the situation that would reduce the surpluses gradually so that we could reduce economic impact on our dairy farmers at this time.

Mr. Foster: Would you limit the Secretary? In other words, would he have been mandated to move price one way or the other or would you give him complete discretion without any restrictions?

Mr. Zundel: Given political climate of today, I would mandate him that if purchase exceeded a certain point, he would have to reduce it until supplies came down further. In the past, I think it worked by discretion. Political climate is not quite safe.

Mr. Schumacher: You talked against some adjuster back in the mid-1970's when grain prices weren't extremely high and the Secretary did not adjust milk to compensate. All of a sudden the price responded and milk prices went up to 102 percent of the parity and then we had emergency imports. Is that the system that you recommend that we would follow then, that we wait until the market takes over and goes extremely high and then import on an emergency basis to bring the price back down? How would you control a situation like that in the future?

Mr. Zundel: In the testimony, I think it stated we do not want dairy farmers penalized for getting their house in order by import, and I remember that situation and the problems we had. And we need to safeguard against that. I recognize that as a real problem in the world today, but we need to work the political end of it through national milk things like this that we could put safeguards—if we got our house in order, prices raised, we would not be punished in that regard. That's a real problem.

Mr. Rutherford: We'll take one more question. George Mertens.

Mr. Mertens: Page 7, Mr. Zundel, it says, "If quotas or base programs are necessary, they should be developed on a regional basis with producers and their handlers." Are you alluding to quotas or bases for plants or a lend on CCC purchases of some sort?

Mr. Zundel: This could be worked either way, George. For specifics, one thing that has been talked about is allocating each plant, regardless whether it be a co-op or proprietary with certain percentage they have sold the CCC in the past as to what is needed. Mostly, I'm talking here about base program for producers that is against a national base which encompasses all of the states. It should be more regional, cooperative.

Mr. Mertens: Administrative?

Mr. Zundel: Administrative.

Mr. Horner: I've got to clarify something. According to your testimony, sir, you're in favor of regionalized—

Mr. Zundel: Base quotas.

Mr. Horner: You talk about a national level. You're certainly opposed to one Federal order nationally, so you favor regionalizing your base end quotas, but a national plan is out.

Mr. Zundel: Yes. Now, that regionalizing, I think should be left to those people left marketing in that area. It may not encompass the regions set out for the people to represent, but the base should retain for a marketing area.

Mr. Rutherford: Thank you very much. We appreciate it. Gerald Bryan has asked to have the opportunity to speak. Would you spell your last name please, Mr. Bryan.

Mr. Bryan: B-r-y-a-n. Gerald is my first name.

Mr. Rutherford: Okay.

Mr. Bryan: I'm a smaller dairyman. And there's been a lot of real interesting discussion brought up today. And a point that I was concerned about more than anything else is the increase in our sale of products to absorb this and there's only two ways we can do it; we either have to put a better product on the market through research, but I think our research on a nutrition deal should be forgotten about and got to the point where we need more emphasis on quality of our products. For example, my boy's on the road a lot. He's a truck driver, and he has the hardest time to get good chocolate milk. Well, all of us know that. I've worked in the industry, as well as dairyman, so I know that there's two products; there's chocolate milk and chocolate drink. And the chocolate drink could be made up of all manufacturers' products. I'm talking about all dairy products. I'm not talking about

synthetics, such as soybean and such, added to it. And I think that these things need to be pushed more in our research and advertisement.

And another thing that I want to add, as was brought up earlier, about this labeling. One of our main distributors and processors in the Denver area fortifies their milk with solids, but you don't know it when you look at the products. It's just like they say, it's written on there in such a way you don't know what you're getting. I push it every time I get a chance because you take 2 percent milk with added solid to bring it up to 10 percent and it's as good a product you will find on the market anywhere. Of course, I was brought up and raised in California when they first came up with two-ten and it didn't go over very well, but once it did, it was our biggest seller. It outsold our regular three-five—our standard in California. Here it's the same as beer, three-two. But the thing is, our general public is fat-conscious and where we can put out a good product in our two-ten, we're getting rid of some of our surplus solids in that milk, and I think it's sensible we get these things known to the public that they know what they're buying when they walk in the store and pick up a 2 percent milk and it's not fortified. And I think we're doing a lousy job of advertising that point, not only for the organization's standpoint, but for the manufacturer's point. It's not labeled in such a way that the consumer knows what he's getting when he walks in there. And I noticed lately, we're getting a few more ads on at the critical time when most people are watching, which we weren't here a few months back, and I'm glad to see this because I think it's worrying about our surplus. I think we need to worry about getting our consumption up. It was, what, 3 percent average last year? And there's no reason in the world, with our right products and everything, we can't push this up more. I would like to see ice cream more, but I think there's another problem, is that when you put ice cream on a product, people start thinking right away that it's too rich and won't buy it, and I think if they use the product label like it used to be with ice milk, that people will consume it a lot more readily and the product can be put out a lot more economically to the consumer too.

Mr. Rutherford: Thank you very much, sir. Are there any questions? If not, would Dr. Rodney Preston please come forward.

Dr. Preston: Good morning, gentlemen. I have a short, modified statement that I would like to present and then I would be happy to have questions.

My name is Rodney L. Preston. I am Thornton Distinguished Professor of Animal Science at Texas Tech University. I was raised on a fruit-vegetable-dairy farm northwest of Denver. I worked all 4 years as an undergraduate student at the Colorado State University dairy and served as interim herdsman during the last part of my senior year. I also worked part-time as a DHIA tester in Iowa during the first part of my graduate work at Iowa State University. I hold B.S., M.S., and Ph.D. degrees in animal nutrition, with minors in physiology and biochemistry. I have been on the faculties of the University of Missouri, Ohio State University, and was chairman of the Animal Science Department at Washington State University before moving to Texas Tech, where I am director of the

Burnett Center for Beef Cattle Research. I am also the current president of the American Society of Animal Science.

My comments relate primarily to the commission charges four and five; namely, new technology. Specifically, I wish to comment on research and other matters related to bovine somatotropin.

I have never worked with somatotropin or growth hormone in dairy cattle. I have conducted somatotropin research in sheep and will be doing somatotropin research with beef cattle in the near future.

Bovine somatotropin is one of the first products of biotechnology research for use in food-producing animals. Because sufficient quantities of this hormone can now be produced, its potential use in food-producing animals is being investigated. Years ago, increased milk production was shown using somatotropin isolated from the pituitary glands of cattle.

Initial research has been designated to determine the effectiveness of this biosynthetic product and to determine the approximate dose range where it may be effective. These studies show great promise which increases in milk production of 20 percent or more. Equivalent increases through genetic improvement have taken many years. This is a very exciting research finding, but it is not yet to the stage where it can be used commercially.

Now, two substantive questions have been raised regarding the potential use of the bovine somatotropin in commercial milk production. The first is, will the use of bovine somatotropin increase herd health problems? Data to date do not indicate any major problem in this regard when used at a rate that gives most or all of the increased milk production. Higher levels, such as ten times the dose required to increase milk production, may increase certain health problems. Once the most effective dose range for enhanced milk production is established, studies can then be initiated to determine if there are any undesirable side effects. Food and Drug Administration requires such studies, termed target animal safety studies, before granting approval for commercial use.

The second question that's come up is, will the use of bovine somatotropin result in a greater surplus of milk? If everything else stayed the same, the answer is yes. But things don't stay the same. Increased milk production through genetic improvement, feeding nutritionally optimum rations, and improved disease control and treatment have been readily accepted by dairy producers. Bovine somatotropin is simply another benefit of research to enhance production efficiency. To meet the market demand for milk, fewer dairy cows will be required, something that has been happening over the past 50 years as new research findings in genetics, nutrition, and herd health have been introduced. If dairies continue to get larger, this will obviously mean fewer dairy producers.

Bovine somatotropin is an exciting new development for the dairy industry, and we need to get on with finding its proper place.

The future development of bovine somatotropin depends on three factors: One, safety of bovine somatotropin in cows

over multiple lactations; two, an adequate return to dairymen for their investment in time and money; and three, acceptance by consumers of dairy products from cows supplemented with bovine somatotropin, provided they're given a chance to understand the process and consumer benefits to be derived from this new product.

Thank you for giving me this opportunity to come before the commission.

Mr. Douma: Thank you, Dr. Preston. Are there any questions? Jim Holte.

Mr. Holte: Dr. Preston, with your experience in animal nutrition and questions of consumer acceptance, do you feel that there is any potential problem with milk producing from somatotropin-induced cows as far as a health risk?

Dr. Preston: Absolutely not. And the Food and Drug Administration in their approval of the use of milk from cows experimentally treated with bovine somatotropin has made this very clear for two reasons. There is a hierarchy, if you will, in the activity of growth hormone between animals. The only growth hormone active in humans is human growth hormone or somatotropin. Bovine somatotropin, it was shown years ago, was not effective in humans for correcting dwarfism problems, and so on. So the hormone itself is not active in humans.

The second reason is that the digestive process breaks down proteins. Growth hormone or somatotropin is a protein hormone and, therefore, the digestive process, if the milk contained any of this protein, would be digested in the digestive track and there wouldn't be anything left of it.

Mr. Holte: Thank you.

Mr. Mertens: You mention a 20-percent increase in production, which is a one-time shot, with a 5-percent decrease in consumption because of buyers' resistance. I would like you to address the perception of the consumer, not the facts, because they are two different things. I agree with what you said, but the perception of the consumer is what we're dealing with.

Dr. Preston: I agree. And that's the reason why I said consumers should be given the chance to understand the process. I think perceptions are a process of education, and I think for proper consumer perception they need to be told what the process is and what dangers are or are not present in the use of this production. The perception on the part of consumers is indeed important, but those perceptions are established through, in a sense, an educative process and, therefore, I think they need to be educated as to the process and the benefits from this new finding.

Mr. Mertens: The question is, who should educate them? Should we use our advertising fund money to educate them or should the chemical companies who are producing it do the educating?

Dr. Preston: Probably both. I think the dairy industry uses these kind of moneys to help educate the consumer now, in terms of consumption and other matters, so I think it probably needs to be both.

Mr. Camerio: Dr. Preston, has any work been done to date to test perceptions in the areas where this is being mar-

keted? I think that's the obvious problem, and we need to find a solution. Is anything being done or is anything planned to be done?

Dr. Preston: I don't know because that's not my area of work, and I'm really not aware of what might be happening in that area. I'm sorry.

Mr. Camerio: Thank you.

Mr. Shade: Dr. Preston, assuming that the bovine somatotropin is going to be approved, would you hazard an estimate on what percentage it might affect our national production?

Dr. Preston: Well, an initial guess might be half of what is observed in experimentally treated cows. In other words, the experiments so far have been from the 12th week of lactation through the end of lactation; in other words, at the peak or slightly post-peak. Whether there will be a response in that early phase is not known yet, but just to hazard a guess, I say if every dairy cow in the country was treated with bovine somatotropin, the milk production response might be half of what's observed experimentally.

Mr. Shade: Would you hazard a guess on what kind of acceptance producers might have.

Dr. Preston: I think the acceptance would be just exactly what it's been with genetic improvement, nutrition, and health products. If it makes a return to the dairymen for time and cost, it will be accepted.

Mr. Shade: Do you think the profit will be sufficient to have a high acceptance of it? Have you looked at the profit potential, considering the cost of other costs associated, feed and management investment?

Dr. Preston: Feed deficiency in these experimental studies is increased 10-15 percent, so there is going to be a cost savings on feed; even though cows treated with growth hormone do eat more feed, the increase in milk production is double the increase in feed intake. In terms of return, you know, it's hard to say because no one knows what the cost of bovine somatotropin may be in the end, and I think that's yet to be determined.

Mr. Shade: Thank you.

Mr. Douma: Thank you, Dr. Preston. Our next witness is Elmer Johannsen from the Rocky Mountain Farmers Union.

Mr. Johannsen: I want to thank, you gentlemen, for the opportunity to come before you. My name is Elmer Johannsen from Wellington, Colorado. I operate a family dairy farm there. I've been in the dairy business for over 40 years. We presently have a herd of 210 milking cows. I am a member of Mountain Empire Dairymen's Association, soon to be Western Dairymen Cooperative, Inc. and Rocky Mountain Farmers Union.

Rocky Mountain Farmers Union is a grassroots organization representing more than 16,000 family farmer/rancher members throughout Colorado, New Mexico, and Wyoming.

Currently in the United States, we have a budget deficit of over \$120 billion, and we have a trade deficit of over \$140 billion. Estimating costs at \$140 million per billion pounds of CCC purchases of milk, we have a dairy program that is

costing \$1 to \$2 billion. We need a dairy program which accomplishes a reduction in milk supply and also reduces the budget deficit and will help reduce the trade deficit.

I advocate a supply management concept. National Farmers Union policy states, "Farmers Union supports the concept of a long-term supply management for dairy. We support implementation of either a voluntary or mandatory supply management program any time CCC purchases exceed 5 billion pounds.

A mandatory program would go into effect with a simple majority vote of individual dairy producers. If a mandatory program is in effect, we recommend that the base be set at the preceding year's production history; producers who participated in the Dairy Termination Program would have no base history." And for anything further on this, you can look at our Exhibit A in the addendum.

I personally advocate a program somewhere between the voluntary and mandatory stages where stability would be provided by supply management, but provision would be made for enough flexibility to produce for export markets, as they're developed.

Specifically, I favor an allotment system with the following recommendations: Cap the value of allotments at a reasonable figure. Allotments are a vehicle for setting production levels and transferring the same. They should not be traded as if they were a stock market item. Set aside 15 percent of allotment transfers to be offered to new and/or young producers. Establish a dairy board or another similar organization as a watchdog agency to handle allotment transfers. Regionalize allotments through transfers to allow production in areas where needed. Provide for allotment adjustment annually to keep allotments in use. This would be an ongoing annual process. Underproduction would result in the loss of a percentage of the base.

Prices should be established on a two-level pricing system, based on a domestic and an export value. If the price at the export level is attractive to a producer, allow him to produce at this value, but this milk should not be subsidized in any way that would cause problems with international trade. The domestic value, we feel, should be set at no less than 71 percent of parity. Further, the USDA Dairy Export Incentive Program—I think our export market has been minimal to this point, but I think we have to be somewhat opportunist should another Chernobyl incident occur and drift across the dairy intensive areas of Europe. We need a reserve for this market.

Administer the program through a dairy commission elected by actual producers and finance it with a milk payment checkoff. If we can take care of our own program and finance it, hopefully we will have a long-range program not subject to pressures from changing administrations in government. I'm not saying here that we wouldn't have the government in that program, but it should be financed and run by our own.

We've heard the argument that an allotment program would discriminate against new and young producers coming into the industry. I think these seven points address this concern, and I submit that the present program certainly makes

it impossible for a new producer to start and survive. Threats of lower prices and the uncertainty of changes in program is not an incentive to beginning producers. I guess the present program, to me, reminds me of a sticky throttle on an engine. It tends to slow down too much and when it catches hold, it tends to rise up and go too far the other way. I also recommend we have an on-line program that's not an off-again, on-again that tends to remind me of the days we cut back on feed grains to the point that they finally came out and said, "Plant fence row to fence row now we need the production. We'll never be able to produce enough again." We saw what happened with that concept.

In addition, we must reevaluate the allocation of dairy research funds. In 1986, of the \$26 million the USDA allocated, \$24.5 million went for production research. Only \$1.5 million went to product development. We learned a long time ago how to overproduce a product. We're still novices at developing our product and selling it.

And along this line, I guess just a personal comment of my own, I would like to see the promotion checkoff fee doubled. When we have an item that's cost-effective and returns back to us over the amount invested, I think all of us are good enough businessmen, we can see that's a good opportunity to promote.

The Dairy Termination Program was successful, but temporary. We now need a continuation that would be cost-effective. We know we have enough marginal cows in the Nation that could take care of our surplus. I think this program would accomplish that reduction. What producer would milk marginal cows when he's faced with a production limit. It would make better managers of all the dairymen in the United States.

Since the present program provides for a price cut of 50 cents per hundredweight, if CCC purchases exceed 5 billion pounds, we demand that casein and cheese imports, valued at their milk equivalent value, be subtracted from CCC purchases before determination is made that price reductions will be implemented. Because the way things are generating right now, it looks like we could be somewhere in the neighborhood of the area of that figure before the end of the year.

An allotment program, such as the one I have suggested, would increase dairy farm income, decrease government costs, and address the problems of market instability and program inconsistency. It would allow the opportunity for new, young producers to enter the industry as older ones leave. It would also provide the opportunity to move forward in our efforts to control increasing budget deficits and trade deficits. I thank you for this opportunity to come before you.

EXHIBIT A
NATIONAL FARMERS UNION DAIRY POLICY

The dairy termination program has been successful in reducing government purchases of surplus dairy commodities but has not been successful in improving dairy farm income. The National Farmers Union recommends that reconsideration of the 1985 Food Security Act include new efforts to improve family dairy farm incomes.

Farmers Union supports the concept of a long-term supply management program for dairy. We support implementation of either a voluntary or mandatory supply management program any time CCC purchases exceed 5 billion pounds.

A mandatory program would go into effect with a simple majority vote of individual dairy producers.

If a mandatory program is in effect, we recommend that:

- a. The base be set at the preceding year's production history.
- b. Producers who participated in the Dairy Termination Program would have no base history.

The price support level must be established as a percentage of parity. The rate to dairy producers must not be less than 71 percent of parity.

If a mandatory program is not in effect, we recommend the reinstitution of either a paid milk diversion program or a dairy buy-out program.

We call on Congress to repeal Class I differentials legislated by the Food Security Act of 1985 and replace them with authority that already exists under the federal milk marketing order system.

We urge acceleration of market order consolidation to achieve uniformity in pricing in regional areas and to maximize net return to producers.

The federal government and milk-producing states should be encouraged to enact legislation adopting component pricing of milk, including the use of protein.

The Food and Drug Administration (FDA) should increase the federal minimum standards for fluid whole milk to 8.7 percent milk solids non-fat; 10 percent for low fat; and 9 percent for skim solids non-fat. And, further, that the FDA, in the best interest of both consumers and dairymen, should do everything in its power to ensure that all milk marketed as fluid milk meet or exceed these standards.

We encourage state legislatures to adopt standards for milk which are greater than the current federal minimum standards.

As casein imports cost American taxpayers in excess of \$600 million annually, major reductions in the current import levels of foreign subsidized casein should be instituted. If casein is to be used for food, it should be transported as a food and inspected by the United States Department of Agriculture (USDA).

Since dairy imports displace millions of pounds of United States-produced milk annually, we urge Congress to include this annual import level of casein in the 7.5 billion pound trigger level in the dairy program in order to protect the price support level to United States farmers.

We applaud Congress' action to reclassify casein as a food product and request that it take similar action this year.

We request that importation of any dairy products into the United States shall be required to be produced and manufactured under the same quality standards as are required by domestic products, and that the cost of such inspection be borne by the exporter or exporting country of origin.

Public programs and private efforts to reduce government-held dairy stocks should be implemented. This should include full funding of the school milk program and special milk program to 1980 levels.

Farmers Union supports strengthening federal regulations governing foods which incorporate artificial dairy products.

We are opposed to regulations which allow the use of dairy terms, i.e., milk, cheese, cream, cheddar, etc., in labeling imitation and substitute dairy products. The use of dairy terms on these labels is deceptive to consumers and allows manufacturers of these products to benefit from the wholesome reputation of natural dairy products.

A dairy indemnity program, similar to that in the 1977 Farm Act, should be reinstituted.

Recognizing that brucellosis continues to be a problem for livestock producers, Congress should provide adequate funding for the eradication of this disease.

The commercial use of Bovine Growth Hormone should be prohibited until social and economic impact studies are completed and the FDA has conducted a long-term study to prove that the product is totally safe and does not jeopardize the future health of the American people. Further, this product should not come into the market until the dairy industry has a long-term supply management program in effect.

We support continuance of the National Farmers Union Dairy Task Force.

EXHIBIT B
ROCKY MOUNTAIN FARMERS UNION DAIRY POLICY

We urge that standardization and grading of dairy products in each state be inspected by a single state agency for all the dairy industry of each state.

Since milk is laboratory inspected where bacteria count and other quality items are checked, we believe that a dairy that passes lab inspection should not be bothered by on-site inspectors. City milk inspectors should be terminated as the state has a qualified milk inspection system.

We recommend that legislation be passed to allow dairy farmers to market certified raw milk directly to the public. Milk produced by these dairymen should be subject to the inspection and standards required by their states.

Mr. Douma: Thank you, Mr. Johannsen. Are there any questions? George Mertens.

Mr. Mertens: Did the 5 billion cow figure come from the present farm bill?

Mr. Johannsen: Yes.

Mr. Mertens: You're not all hung up on 5 billion pounds?

Mr. Johannsen: Personally, no.

Mr. Mertens: The specific data, where did it come from?

Mr. Johannsen: That was quoted in our National Farmers' Policy. That's the reason for the figure at the triggerpoint.

Mr. Camerio: But you said to adjust that in cheese.

Mr. Johannsen: I'm talking about the 5 billion to trigger the price cut we have facing us right now.

Mr. Holte: I have a question concerning the first of your seven points. You indicate that you would cap the value of allotments at a reasonable figure. Do you have an idea how you would go about doing that, capping?

Mr. Johannsen: Yes, I do. In this area, for those not familiar with it, we do have a base quota plan. This would probably be the only opportunity to address these producers that have invested moneys in base. Presently, in this area it's worth somewhere between \$3 and \$4 a pound, if we could conceivably put a figure on this, that would soften the blow to those who presently have a base, say that in this area it's worth around \$3 a pound, put the value of \$2 a pound, at least we're not going to lose too much. We would still retain some value, but if we capped it, it would cost nothing in effect, it would come up on both sides of the ledger. If you had to purchase an allotment, it would cost you the same, as you would sell it for.

Mr. Holte: But I assume it's an advantage to have base and you're going to limit how much farmers can sell it for. Isn't that going to create a situation where people go under the table and sell the base? It seems to me it would be very difficult to eliminate the sell and demand factor.

Mr. Johannsen: I think we need a buffer agency, a local cooperative could handle it, any agency as a go-between that is, it must be notarized between transfers and would stop this under the table dealing—I mean a transfer of quota that was not notarized by the proper agency is not valid.

Mr. Douma: Thank you, Mr. Johannsen. Our next witness is Dwight Hull.

Mr. Hull: My name is Dwight Hull. I am part owner of Golden Peaks Dairy, along with my son, Willis, my son, Kenneth Hull, who is home doing the work. We're at Golden, Colorado. We distribute milk in the metropolitan area. I worked in the dairy industry all my life. I worked in the marketing industry, and I've worked—I was an extensive dairyman. I've been in the industry a long, long time.

Historically, the Federal Milk Marketing Orders were introduced to protect milk producers from the predatory practices of handlers. For example, the handler cheated the producer on butterfat tests and milk weights. When the processor had

too much milk for his sales, he would drop producers or force them to take less for their milk. The result was the collapse of the whole market.

The producer who produced, bottled and distributed his own milk was exempt from milk marketing orders because he did not need protection from these practices. The producer/distributor has always taken all the market risk, done all of his own advertising, and often sold his milk for less in order to gain a share of the market or to gain a guaranteed price, as do the producers under the Federal Order Program. He has never asked for help from the Federal Government and, fortunately, has not had any forced on him. The producer/distributor did not cause today's giant surplus. He should not be forced to help pay for it. If the producer/distributor has an imbalance of supply, he must buy milk out of the pool at a premium price, if this is allowed. Or he must sell cows or buy cows to meet his needs. The producer/distributor has always been responsible for his own surplus. Over the years, the producer/distributor's role in the market has not changed. The producer/distributor should remain exempt from all government interference in dairy marketing.

Dairy policy, as practiced by the Federal Government, has been on the road to disaster for many years, the reason being that neither Congress, nor presidents, have had the intestinal fortitude to use the Order Program or support price to regulate price to keep supply and demand in reasonable balance. The public has borne these tremendous costs and it is utterly amazing that they continue to do so. In 1983, \$2.4 billion, not million, but billion, was spent on dairy subsidies. This is approximately \$10,000 per dairy farmer. I love my fellow dairy farmer, but not that much. These costs have grown every year and will continue to unless responsible people take control.

It appears that the dairy surplus could be best resolved by complete deregulation or, at a minimum, a major overhaul of existing regulation. If an overhaul is in order, dairy policy must revolve around three things: antitrust laws, regulated prices, and support prices.

Cooperatives were exempted from antitrust laws in 1935 when the Capper-Volstead Act was amended. It might have been right then, but today it is wrong, 52 years later. We now have giant regional cooperatives that spread from border to border. These cooperatives can collaborate to price milk without fear of antitrust. They can price milk as they see fit and not worry about legal problems related to price fixing or the harm done to proprietary handlers with whom they are often in competition. These cooperatives should no longer be exempt from antitrust laws.

We now have large regional cooperatives; therefore, Federal orders should be merged into large regional orders. The pricing under these orders should be reflective of supplies rather than a function of the price for manufactured milk in Minnesota and Wisconsin; that is the Minnesota-Wisconsin series. Most Federal orders carry 120 to 150 percent of Class I needs, but are charging over order prices. Cooperatives now have the strength to prevent predatory practices of handlers, and this is shown by their ability to charge over order prices while there is a large surplus in the market. The Market Administrator's market information letter in March

shows that 35 orders had over order pricing, averaging 87 cents per hundredweight, while at the same time they're selling millions of surplus pounds of milk to plants manufacturing butter, powder, and cheese. The Federal Government, under law, must buy all of the butter, powder, and cheese to maintain a high proper price. The cooperatives are gouging the public for higher fluid milk prices while, at the same time, using their influence to keep the support price high, as well as surplus sales to government. John Q. Public pays again.

There is some talk of market quotas. There are several types of quotas. One type is the historic production of a producer, which the last speech was talking about. That producer may sell the quota or he may buy from someone else if he is short. That type of quota does absolutely nothing to reduce the surplus of milk. I call this type of quota "rocking chair money." Another type is a yearly production quota. The producer is allowed to sell in the surplus months of the year that amount of milk which he can produce during the months of short supply. The producer could not transfer, buy, or sell this quota. The producer will then begin to manage his herd better and some of the surplus will disappear from the market.

The Federal Government price support program has been on the road to disaster for a long time. The dairy cooperatives and national milk producers federation have lobbied Congress to raise this price higher and higher with no regard for the surplus it creates. Under the present government price support program, billions of pounds of milk are produced, simply to sell to the government and for a profit off of the taxpayer. I would like to cite one example, and there are many throughout the United States. In El Paso, Texas, mega co-op AMPI has a butter-powder plant which processes 50,000 pounds of milk per hour. This is approximately 1 million pounds of milk per day. The plant opened 4 or 5 years ago and has never locked the door one single day since, including holidays. There are not enough people in El Paso, west Texas, and all of New Mexico to consume this milk. It is not needed. It is produced with the primary effect of ripping off the taxpayer. I would like to remind you now this is only one example. There are many more.

The only way we are going to stop this is to deregulate the dairy industry. The airlines were deregulated; the trucking industry was deregulated, with the end results of more efficiency, better service, and lower prices.

The dairy industry will have to learn to match production with sales. The taxpayer can no longer be expected to pay over order fluid prices at the grocery and higher support prices with their tax dollars. The cooperatives will have to learn to balance production and sales.

I believe that the only way to solve the dairy surplus problem is to deregulate or at least overhaul the regulations of the milk industry. In all fairness, it should be done and done now.

In conclusion, I would like to make four points: One, the producer/distributor did not create the tremendous surplus. He should not be made to pay for it. The producer/distributor should not be included in any government program.

Two, the large regional cooperatives should be responsible for balancing supplies with sales, in effect handling their own surplus.

Three, the Federal Order Program needs a complete overhaul to protect the consumer who pays all the bills. The intent of the original order program was to protect individual farmers from large handlers; now perhaps it needs to protect individual consumers and taxpayers from large dairy cooperatives.

Four, we are going to have to make Congress responsible to lower support prices to reflect sales of dairy manufactured products. If Congress cannot stand up to the pressure of the milk lobby and their contributions to Congress, then the voter must replace the irresponsible congressional people.

Mr. Rutherford: Thank you, sir. I have two questions for you. First, do you honestly feel that the airlines and trucking industries are better off with deregulation?

Mr. Hull: You've certainly gotten cheaper transportation, sir, by a long, long range, over 100 percent.

Mr. Rutherford: From what point to what point?

Mr. Hull: Well, back when they were subsidized with the Federal Government and completely deregulated now, the consumer has benefited from lower prices and there's no argument there. They're lower prices. You have to admit that.

Mr. Rutherford: For example, I can fly from Syracuse, New York to San Francisco cheaper than I can fly from Syracuse to New York City, and I feel I'm getting ripped off.

Mr. Hull: I'm sure I don't know anything about the airlines' prices of Syracuse, New York.

Mr. Rutherford: I want your opinion of deregulation, and you feel it has worked? You have a right to that opinion.

Mr. Hull: Let's back up. It isn't perfect, but heck, there isn't anything perfect, so it has benefited the consumer, so, you know, they're the people that pay the bills, and we can't be at the trough forever. I'm a milk producer.

Mr. Rutherford: That was my next question. As a milk producer, have you increased your production since 1980?

Mr. Hull: No, not really.

Mr. Rutherford: Not really? Okay, you've stayed pretty flat?

Mr. Hull: We only started with a herd in 1980.

Mr. Rutherford: Okay. All right.

Mr. Hull: Well, we had one prior to that and sold it because we were in a very poor position to produce milk at this farm. We sold a herd and later bought another place where we could produce and then we started our herd.

Mr. Rutherford: Okay. Are there any questions? Fred Douma.

Mr. Douma: I didn't quite hear. Are you a P.D.?

Mr. Hull: Yes.

Mr. Douma: You say you're responsible for your own surplus?

Mr. Hull: That's correct.

Mr. Douma: So, at times, I would assume you have a surplus.

Mr. Hull: What?

Mr. Douma: You have a surplus then at times?

Mr. Hull: No.

Mr. Douma: You never have a surplus?

Mr. Hull: We try to manage not to. It's easier to buy from the pool than it is to have a surplus, so we try not to have a surplus. Buy from the pool.

Mr. Douma: If the pool didn't have a surplus, would you have anything to buy?

Mr. Hull: I would have to buy cows then.

Mr. Holte: As one alternative to the current situation, didn't you advocate removing government involvement from the sales of milk and production?

Mr. Hull: In the amount of business in support in prices?

Mr. Holte: Well, okay. If that came to be, a lot of farmers would stop producing because they could not compete with the lower prices that would result. Our production in this country would be quite a bit lower.

Mr. Hull: Well, my answer to that is simply this, I was milk marketing manager for a number of years, and I had intestinal fortitude to tell my producers, "I cannot get enough money for you. The poorest of the managers, the middle manager, is going to make himself a heck of an estate and the top manager is going to make a lot of money. I can't get enough money for that poor producer, so maybe you ought to go out and get it.

Mr. Holte: If we were to go cold turkey in removing government involvement, I think we would get that slingshot effect and have less milk than the consumers would require. We'd also get into the problems we discussed earlier of the import gates being opened up and all the long-range problems related to that.

Mr. Hull: Well, let's look realistically at the whole thing. Government moves like a snail. If they were to follow my suggestion, they would be years getting out from under it anyway, so where are you. I read in the paper they want to take 10 years to do what I have said. Give me 10 years, I can figure a way around any damn thing. So it's got to be done and pretty soon or it isn't going to work.

Mr. Holte: Thank you.

Mr. Rutherford: Any further questions or comments? Fred Douma.

Mr. Douma: Yes, one question. You talked about low order pricing.

Mr. Hull: Right. Low order pricing in 34 other markets.

Mr. Douma: Yes. As a P.D., isn't that to your benefit?

Mr. Hull: Doesn't affect me. Well, I guess it does affect me. If I buy milk out of the pool, I have to pay more money for it.

Mr. Douma: It would affect you if the competitor is in the marketplace. All other Class I are paying more for milk, you can increase your price or you can undercut their price, you have the advantage.

Mr. Hull: I have what advantage? I fail to see it.

Mr. Douma: The price advantage.

Mr. Hull: In what?

Mr. Douma: In lower prices.

Mr. Hull: I got to pay the same price they do or produce it myself.

Mr. Douma: Well, that's my point. You get more as a producer also if they're changing federal over order price.

Mr. Hull: Well, I got to pay the over order price plus a premium to the co-op in order to get any milk. I have to pay more than my competition for any milk bought out of the pool. I pay more than Safeway, Robinson, Dick's here some place, some friend. All these other handlers I have to pay more because they charge me a premium because I'm a P.D. and that's okay. I'm not squawking about that. It's a service to me.

Mr. Rutherford: Any further questions or comments? Yes. Mr. Knolle.

Mr. Knolle: How much milk do you produce on your own?

Mr. Hull: About 125,000 a month.

Mr. Knolle: I mean in relation to your sales.

Mr. Hull: Towards sales?

Mr. Knolle: Percentage of your milk.

Mr. Hull: We have to buy—depends on whether we have any school contracts or not. We have to buy about 50 percent. We are trying to expand our herd. That's a very slow process.

Mr. Rutherford: Are there any further questions? Thank you very much. Ed Wiedeman will be the next to testify.

Mr. Wiedeman: My name is Ed Wiedeman. I am a dairy farmer from Greeley, Colorado, milking 420 Holsteins, three times a day. I am a member of Western Dairymen Cooperative. I have studied milk markets for many years and, as a result, I have several observations I would like to share with you this morning.

If you will follow along with me, I have prepared several exhibits that illustrate the need for a national supply management program within the U.S. dairy industry. And I assume that you have two copies; one that I'll be reading from, the other one you can follow on the illustrations.

Exhibit 1 illustrates national production and commercial usage of product for 1983 through first quarter 1987. During this period of time, total milk production was consistently highest during the second quarter of each year. Meanwhile, commercial usage was highest in these same years during the third quarter. And I boxed squared off where the points are I'm trying to bring out.

Exhibit 2 illustrates daily production and commercial usage for the first and second halves of the years 1983 through

1986. As you can see, production during the first 6 months of the year, historically, is greater than during the second half. However, during calendar 1985, the Milk Diversion Program leveled this seasonal imbalance. Commercial usage, historically, has been greater in the second half, except the position that our production trends have been. This has caused the seasonal imbalance that can be observed in Column 5 when we compare total production to total commercial usage for the first half versus the second half of the year. And what I'm trying to bring out on this, first I had a breakdown of quarterly production down to daily production because the first half has just 181 days, where the second half has 184 days. So it really means what it says. You have to break it down in daily production. And you can see on your exhibit that first half is always a higher percentage in the first half of the year than the second half. September for 1985—and, again, 1985—the first quarter of 1985 probably the diversion program was still held. Production now—and a lot of dairymen still tell me that it held their efforts back and freshened them later and brought their production way up the last part of the year, so I think production shows some in 1985 production.

Commercial use, you can see that on a percentage it has always been higher in the last half of the year than in the first half. So really, what we're doing, we're producing our milk in the opposite from what our commercial usage is and then when you look at the last column, compare production with commercial usage, through the different years you can see in 1984 and the commercial use the last half, 101 percent. And what I'm trying to say, we'd better be looking and watching so we're not creating ourselves two false markets. That's a surplus market the first half and a deficient market in the second half. So what I'm trying to say, when we're working on a program, we'd better get something balanced, supply and demand better than what we have or we can have two false markets in 1 year.

Exhibit 3 shows that the percent of cows leaving herds on a yearly basis stays relatively stable until some type of incentive is made available to change the population of the cows. 1984 reflects the increase in cow culling brought about by the Milk Diversion Program. The Herd Buyout Program is not reflected in the 1986 data because of the requirement of a total herd disposal. So you can look in 1984 and look—this is on 10 years through DHI-PROVO. This is computing service, all their herds, and all the states. They run through their record system, shows how the culling has increased in 1984, and we did have a program and it shows the states that participated in the program, probably on a higher percentage than other states. You take Washington, California, didn't show much increase in culling, so I am assuming that their percentage wasn't as high in the sign-up on the diversion program. So it tells me two things; that we are not sharing our market equally on our programs—one state is way high and one state is way low. I see problems in our past programs that we are not doing our job as dairy leaders to have the right kind of leaders that we need in the marketplace.

Exhibit 4 is the recent milk diversion program that in 1984 had some beneficial effects on herds with production records processed at the regional DHI Computing Center

located at Provo, Utah. Exhibit 4 verifies that the number of herds and number of cows, as well as the average size of herds, were increased until 1984. There was a significant decrease in all categories in 1984. Following the Milk Diversion Program, the herds still in business, build back their cow numbers and cows per herd had increased to greater numbers than in 1983. And it shows 140, back up to 146 cows. Over the period of October 1981 through September 1986, there were 17 percent less herds and only 15 percent less cows in the system. This illustrates that although there were fewer dairymen, there were more cows per herd.

And, again, you can go over the last 10 years, take state by state, how many herds, how many cows per herd. And when you pin it all back down to 1984, 1985, you can see that the program did change numbers.

Exhibit 5 is a tribute to the ability of dairymen in this region to improve their production efficiency. The average herd was able to increase milk production per milking cow per day by 15 percent with a range of 6 percent for Hawaii dairymen up to 29 percent in Colorado. This shows that if the incentive is available, dairymen can respond even without the new miracle products that are currently being researched and made—and made available to them.

What this tells me, that the dairymen, through the management, that their programs have increased their production, like Colorado has come up to 29 percent in the last 10 years in production. So you can increase production without the new miracle products, and basically I'm looking at BST in Utah, what we've done in the last 10 years and what we're going to do maybe in the next 10 years. And this again is why we need some kind of program, quota program, or base program to let the dairymen have their choice what they want to do. If they want to milk more cows for their base for production, fine. If they want to milk less, let them milk less, but somebody has got to cull some cows to make the program work. And if you're going to let everything come and go on BST, I think it's a fine product, and I think it has a lot of potential in the market, but, again, we can't let all our cows stay in milk production and get these shots and increased production. I think it could wreck our market.

Mr. Rutherford: Ed, I'm going to have to ask you to move a little quicker. If not, we're going to run out of time. I want to make sure that we have time for your conclusion.

Mr. Wiedeman: Okay. In some states, the increased percentage of milk production per cow is much greater than others. This can be attributed to the herds going on three-times-a-day milking, particularly during the most recent years when assessments were levied by the Secretary.

Again, dairymen working for cash flow need more milk to pay their bills, so a lot of them, I feel, went three-times-a-day milking.

Exhibit 6 shows nine states added almost identical number of cows to their herds in the winter and spring months. In all but one state, Arizona, milk production was greater in the spring months, as compared to winter months. A simple average of the data shows that there was an advantage of 4 pounds of milk per day milked in the spring months, or 600,000 cows tested produced by two and a half surplus

million per day. If those cows represent 35 percent of the total average in the states, then we can assume that cows in these selected nine states are adding about 4.2 million pounds of milk per day to the surplus milk problem during the spring months.

This data points out two needs in milk marketing; one, an incentive program is needed to reward dairymen who produce milk when it is needed in the fall and winter months when supply and demand are closely matched and when costs of production are at the highest level per hundred pounds of milk produced as shown on exhibits 6(a) (b) and (c). And that gives you an illustration month-by-month about production—what the price of milk was, and what the actual cost was, and the difference on cost, the plus and the minus.

Exhibit 7 illustrates two different producers and their production habits. Producer A maintains level production throughout the year by producing milk when the market is in need during the fall and winter months and cuts back during summer to avoid an increase in output when the market is in a surplus situation.

Producer B produces milk just the opposite, milking more cows and producing more milk in the summer months when the market is saturated. In the fall and winter months, when the market is in need of milk for increased sales, he milks fewer cows and produces 23 percent less milk.

Both of these producers are marketing their milk through a co-op with a base program. Producer A maintains his production at his base level. Producer B transfers base in and out of his account several times during the year.

Given these conditions, I am advocating a national supply management program, using a quota established during the July through December months. The program's general provisions are as follows: Producer's quota would be based on the third and fourth quarters' production history. This is a time when, historically, production and commercial use are most closely aligned as follows—and I've got examples there.

Producers would submit production history annually to ASCS for registration of a production quota. The Secretary, USDA, and NMPF would make an annual estimate of national production versus commercial usage and announce semiannually a percent of quota needed to keep supply and demand in a reasonable balance.

Producers paid price—producers' pay price on production covered with quota—will be computed the same as it is currently; however, the over-quota production will be discounted. Whenever a dairyman produces milk over his assigned quota, he will receive a world price for that portion of his production. The dollars resulting from the difference between the world and the current support price will be deducted from his milk check and sent to CCC to offset administrative program costs and purchase of surplus product.

A new producer would be allowed to enter into the market only during the July-through-December period each year. New producers would be paid the local blend price based on the percent Class 1 utilization in the market. Producers

overproduction over this amount would be paid at the world price. During this July-through-December period, the dairyman will be earning his quota for the coming year. The new producer must ship a minimum of 1 year before a quota would be assigned to him. By basing a new producer's quota on the Class 1 utilization in a given market, this will be an incentive for new production to enter markets that are in need of milk.

Production quotas would be nontransferable, except on a complete takeover of the facility and herd where continuity of the operation was maintained.

Summary. The plan that I have proposed to you is designed to treat all producers more equitably. We must set aside our regional differences when we are looking for solutions to our supply/demand imbalances. We are one big bucket of milk, and we must all do our share to overcome our surpluses.

The plans that we have had in the past are not long enough and should be mandatory to every dairyman. It seems that those of us who try to level our production in the interest of the industry end up getting penalized twice; one, by making more milk in the tougher fall and winter months when production costs are high; and two, by paying the assessments and experiencing price support reductions when our production remains out of line with demand.

I believe that this plan is fair for all dairymen in the sense that it pays for milk what it is worth at the time it is being produced. If a dairyman wants to produce more milk in the summer months when the market is in surplus, he will be receiving what that milk market will support.

Dairymen across the country have had to increase plant capacities and purchase more milk tankers each year due to the tremendous flood of milk that comes on each year during the summer months. This creates a large investment for the dairyman for just a short period of time and, in most cases, no return is gained on the investment in the fall and winter months when production falls to seasonal norms. This is another additional expense that the dairyman who maintains level production throughout the year must bear.

This concludes my remarks to you this morning. Thank you for your opportunity—for the opportunity that you have given the dairy industry and myself to express thoughts. I am now available for any questions you have.

UNITED STATES MILK PRODUCTION, COMMERCIAL USE -- 1983 to 1987

EXHIBIT #1

Year	Month	U.S. Milk Production: (Billion #)	Year	Quarter	U.S. Milk	U.S.
					Production: (- Billion Pounds -)	Commercial Use:
1983	Jan.	11.5				
1983	Feb.	10.7				
1983	Mar.	12.0	1983	I	34.2	28.0
1983	Apr.	12.0				
1983	May	12.6				
1983	Jun.	12.3	1983	II	36.9	30.9
1983	Jul.	12.1				
1983	Aug.	11.7				
1983	Sep.	11.3	1983	III	35.0	32.0
1983	Oct.	11.4				
1983	Nov.	11.0				
1983	Dec.	11.4	1983	IV	33.8	31.6
1984	Jan.	11.4				
1984	Feb.	10.9				
1984	Mar.	11.7	1984	I	34.0	29.2
1984	Apr.	11.7				
1984	May	12.2				
1984	Jun.	11.7	1984	II	35.6	32.4
1984	Jul.	11.5				
1984	Aug.	11.2				
1984	Sep.	10.8	1984	III	33.5	33.1
1984	Oct.	10.9				
1984	Nov.	10.5				
1984	Dec.	11.0	1984	IV	32.4	32.2
1985	Jan.	11.3				
1985	Feb.	10.5				
1985	Mar.	11.9	1985	I	33.7	29.4
1985	Apr.	12.1				
1985	May	12.9				
1985	Jun.	12.5	1985	II	37.5	32.6
1985	Jul.	12.6				
1985	Aug.	12.4				
1985	Sep.	11.9	1985	III	36.8	34.6
1985	Oct.	12.1				
1985	Nov.	11.6				
1985	Dec.	12.0	1985	IV	35.6	34.0
1986	Jan.	12.2				
1986	Feb.	11.3				
1986	Mar.	12.7	1986	I	36.2	30.9
1986	Apr.	12.6				
1986	May	13.1				
1986	Jun.	12.7	1986	II	38.4	33.7
1986	Jul.	12.3				
1986	Aug.	11.9				
1986	Sep.	11.4	1986	III	35.6	35.0
1986	Oct.	11.5				
1986	Nov.	11.0				
1986	Dec.	11.4	1986	IV	33.9	34.7
1987	Jan.	11.7				
1987	Feb.	10.9				
1987	Mar.	12.2	1987	I	34.9	

EXHIBIT #2

		<u>Daily Production</u>	<u>1st Half Production vs. 2nd Half</u>	<u>Daily Commercial Use</u>	<u>1st Half Commercial Use vs. 2nd Half</u>	<u>% Production vs. Commercial Use</u>
1983	1st Half	392.8		325.4		121%
	2nd Half	373.9	+5%	345.6	-6%	108%
1984	1st Half	382.4		338.5		113%
	2nd Half	358.1	+7%	354.9	-5%	101%
1985	1st Half	393.4		342.5		115%
	2nd Half	393.5	-0%	372.8	-8%	106%
1986	1st Half	412.2		356.9		115%
	2nd Half	377.7	+9%	378.8	-6%	100%

DHI-PROVO COMPUTER WORKSHOP

EXHIBIT 3

ROLLING HERD AVERAGE - PERCENT COWS LEAVING THE HERD

OFFICIAL HERDS PROCESSED FOR SEPTEMBER IN EACH OF THE LAST TEN YEARS

STATE/COUNTRY	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
31 OHIO	33	36	33	31	31	31	32	37	33	33
31 MARYLAND	32	33	33	31	32	32	33	33	33	37
34 MEXICO	31	29	28	29	31	31	30	33	30	43
34 TEXAS										19
73 COLOMBIA					21	24	24	28	31	24
81 MONTANA	32	36	38	33	30	31	32	38	32	34
82 IDAHO	26	26	24	24	30	32	34	41	33	34
83 WYOMING	26	37	44	41	29	33	34	31	43	23
84 COLORADO	24	24	25	27	24	23	29	45	24	24
85 NEW MEXICO	33	29	33	33	24	31	29	43	37	36
86 ARIZONA	33	32	24	24	30	33	24	29	24	23
87 UTAH	33	26	26	24	33	33	25	40	25	25
88 NEVADA	29	33	32	31	24	28	24	42	25	20
91 WASHINGTON			22	31	31	30	31	24	31	24
92 OREGON					43	28	29	36	24	49
93 CALIFORNIA	28	28	28	29	29	28	28	24	28	28
93 HAWAII	29	29	29	29	31	29	23	40	25	28
94 ALASKA						23	22	26	25	24

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EXHIBIT #4

AVERAGE HERD SIZE

OFFICIAL HERDS PROCESSED FOR SEPTEMBER IN EACH OF THE LAST TEN YEARS

STATE	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
31 OHIO	57	56	57	59	60	61	62	60	62	63
* NUMBER HERDS	1469	1475	1543	1627	1625	1635	1662	1591	1525	1506
51 MARYLAND	83	82	79	82	80	85	85	85	83	83
*	550	569	582	592	512	609	629	568	565	550
66 MEXICO	324	298	318	329	359	310	300	319	291	303
*	79	107	127	144	116	123	120	110	9	9
74 TEXAS										384
*										2
75 COLOMBIA					75	76	78	71	73	73
*					47	121	175	246	198	209
81 MONTANA	78	74	70	80	84	84	83	88	89	92
*	70	69	76	95	107	108	104	97	95	84
82 IDAHO	94	130	99	701	98	100	100	95	105	104
*	92	100	171	208	481	475	470	420	388	331
83 WYOMING	85	82	76	75	84	83	97	97	62	42
*	32	39	18	31	25	22	22	15	8	4
84 COLORADO	110	112	106	118	127	130	139	129	150	155
*	190	210	206	195	236	223	217	191	172	151
85 NEW MEXICO	460	464	540	465	453	417	455	492	604	539
*	43	37	42	51	54	59	50	40	35	30
86 ARIZONA	345	377	401	396	404	404	485	431	463	506
*	112	108	92	97	106	104	101	90	76	78
87 UTAH	92	95	99	104	111	114	111	109	116	119
*	209	231	292	295	357	364	357	308	305	251
88 NEVADA	156	192	157	244	284	332	307	296	275	225
*	36	38	25	42	38	24	31	30	27	26
91 WASHINGTON			125	131	137	139	143	141	145	149
*			621	625	621	616	590	576	562	489
92 OREGON					93	119	121	91	97	111
*					12	8	10	8	14	13
93 CALIFORNIA	237	287	289	296	307	308	317	317	341	363
*	758	719	755	813	824	827	824	796	757	702
95 HAWAII	485	502	563	555	558	623	580	504	514	584
*	18	17	16	14	13	12	13	15	14	14
96 ALASKA					60	69	61	59	128	154
*					1	1	1	1	2	3

HERDS 5175 5331 5376 5102 4752 4450 -1

COWS 736,007 571,134 769,876 713,643 681,819 653,362

COWS PER HERD 142.22 140.90 143.21 139.88 143.48 146.82 -1

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SELECT 1986 DHI DATA* TO COMPARE WINTER AND SPRING COW REMOVAL, ADDITIONS AND PRODUCTION DIFFERENCES

State	New Cows Entering Herd	New Cows Entering Herd	Pounds of Milk/ Cow/Day	Pounds of Milk/ Cow/Day	Total Cows Tested 9/10/86
	Winter Months OCT-JAN '85/86	Spring Months MAY-AUG '86	Winter Months OCT-JAN '85/86	Spring Months MAY-AUG '86	
Ohio	3,183	2,833	50.6	53.4	94,878
Maryland	1,572	1,208	50.2	52.2	45,450
Idaho	850	1,290	49.5	55.1	34,424
Colorado	1,000	733	53.7	62.4	23,405
New Mexico	490	750	58.9	67.2	16,170
Arizona	1,043	1,353	57.2	56.9	39,468
Utah	835	985	54.4	59.1	29,849
Washington	2,050	2,298	58.4	62.4	72,861
California	7,900	7,525	57.8	60.7	254,826
Total Entering	18,973	Total 18,975	Average 54.7	Average 58.8	811,551
				Diff. + 4.1	

Increased milk spring months = 2,507,359 pounds

*Data from DHI Computing Center, Provo, Utah, for 12 months ending 9/30/86.

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DHI-PROVO COMPUTER WORKSHOP

AVERAGE POUNDS OF MILK PER DAY FOR MILKING COWS ONLY

OFFICIAL HERDS PROCESSED FOR SEPTEMBER IN EACH OF THE LAST TEN YEARS

STATE/COUNTRY	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	Increase 77-'86
31 OHIO	43.2	43.6	43.4	44.9	46.0	47.2	47.3	48.0	50.8	50.4	11.5
31 MARYLAND	45.0	45.2	43.9	44.2	44.9	44.7	44.3	47.1	48.9	51.0	13.3
46 MEXICO	37.8	33.4	38.7	38.1	40.2	42.8	39.6	40.9	42.2	42.9	13.5
74 TEXAS										52.8	—
75 COLOMBIA					32.6	32.0	32.2	33.7	31.0	33.2	—
81 MONTANA	42.2	42.8	43.9	44.6	44.9	45.2	46.2	49.1	50.8	50.5	19.4
82 IDAHO	45.6	48.2	48.4	45.6	47.7	47.9	48.9	48.3	51.2	51.8	11.1
83 WYOMING	42.2	42.6	39.3	44.7	45.2	43.3	44.3	47.4	43.2	42.9	—
84 COLORADO	44.3	48.6	43.8	47.2	47.2	48.4	50.5	52.2	57.3	60.0	29.0
85 NEW MEXICO	50.2	52.6	50.8	51.5	51.7	54.2	56.1	58.1	60.1	61.7	26.6
86 ARIZONA	48.8	47.3	46.7	49.2	49.7	47.7	43.7	46.7	52.3	51.4	5.3
87 UTAH	48.1	49.2	44.2	48.6	49.6	51.2	50.7	51.6	55.2	56.3	17.5
88 NEVADA	48.2	49.9	48.7	48.8	47.8	48.4	49.2	50.9	56.0	54.3	17.2
91 WASHINGTON			48.3	49.2	51.2	52.7	54.7	58.0	59.0	59.4	22.6
92 OREGON					42.8	47.2	48.2	49.2	48.8	46.7	6.6
93 CALIFORNIA	52.3	51.8	51.7	53.8	54.2	54.6	52.9	55.6	58.1	54.0	10.3
95 HAWAII	42.6	42.6	42.6	43.2	41.2	44.1	47.6	44.6	47.2	45.2	6.1
96 ALASKA					42.6	50.8	44.2	48.7	48.1	50.8	16.5

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COST OF PRODUCTION FOR 1979

MONTH	MILK PROD/ MILK COW	3.5 BASE PR.	MILK INCOME	* ACTUAL EXPENSES
JAN	49	12.14	12.47	11.00 + 1.47
FEB	46	12.27	12.49	10.55 + 1.94
MAR	52	12.25	12.51	10.27 + 2.04
APR	54	12.21	12.13	9.44 + 2.69
MAY	53	12.21	12.04	9.70 + 2.34
JUNE	60	12.22	11.80	9.97 + 1.83
JULY	55	12.28	12.01	9.76 + 2.25
AUG	55	12.60	12.32	10.10 + 2.22
SEP	47	12.75	12.73	11.63 + 1.10
OCT	47	12.89	13.01	12.04 + .97
NOV	45	13.13	13.46	12.05 + 1.43
DEC	<u>48</u>	<u>12.87</u>	<u>13.34</u>	<u>13.50</u> - .16
AVERAGE	50.9	12.48	12.51	10.85 + 1.68

1. Milk Income increased steadily throughout the year.
2. Actual Expenses also increased but at a higher rate.

* Actual Expenses do not include depreciation or interest on investment.

COST OF PRODUCTION FOR 1980

MONTH	MILK PROD/ MILK COW	3.5 BASE PR.	MILK INCOME	ACTUAL EXPENSES	
JAN	47	13.07	13.56	14.45	- .89
FEB	54	13.01	13.29	13.07	+ .22
MAR	50	13.07	13.31	13.29	+ .02
APR	49	13.07	13.31	12.71	+ .60
MAY	48	13.19	13.25	10.97	+ 2.28
JUNE	55	13.19	13.21	11.00	+ 2.21
JULY	52	13.22	13.13	11.36	+ 1.77
AUG	58	13.34	13.19	9.59	+ 3.60
SEPT	51	13.56	13.80	11.28	+ 2.52
OCT	51	13.90	14.18	12.15	+ 2.03
NOV	47	14.09	14.62	13.54	+ 1.08
DEC	51	14.35	14.86	12.13	+ 2.73
AVERAGE	51.1	13.42	13.64	12.13	1.51
1979 AVE	<u>50.9</u>	<u>12.48</u>	<u>12.51</u>	<u>10.83</u>	<u>1.68</u>
	+ .2	+ .94	+1.13	+1.30	- .17

1. Notice the continued influence of the bad winter and low income over expenses through May.
2. Milk Income continued to increase coming up \$1.13 above 1979 but Base price was up only \$.94, which indicates fat test improved and/or more herds were qualifying for bonus program.
3. Actual Expenses increased by \$1.30 over 1979 leaving \$.17 less net income in 1980.
4. Note effects of open winter in 1980 and early 1981.

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COST OF PRODUCTION FOR 1981

MONTH	MILK PROD/ MILK COW	3.5 BASE PR.	MILK INCOME	ACTUAL EXPENSES	
JAN	49	14.40	14.80	13.06	+ 1.74
FEB	46	14.45	14.99	13.01	+ 1.98
MAR	50	14.40	14.64	13.24	+ 1.40
APR	51	14.37	14.54	13.01	+ 1.53
MAY	52	14.25	14.38	12.66	+ 1.72
JUNE	52	14.20	14.15	12.50	+ 1.65
JULY	56	14.20	13.96	11.80	+ 2.16
AUG	53	14.11	14.08	12.42	+ 1.66
SEPT	49	14.10	14.13	12.44	+ 1.69
OCT	49	14.25	14.54	12.01	+ 2.53
NOV	48	14.20	14.72	12.49	+ 2.23
AVERAGE	50.5	14.27	14.25	12.60	+ 1.84
1980 AVE	<u>51.1</u>	<u>13.42</u>	<u>13.64</u>	<u>12.13</u>	<u>1.51</u>
	- .6	+ .85	+ .81	+ .47	+ .53

1. Price of base 3.5% milk actually has decreased during spring and summer months and is lower at the end of the year than in January. Average base price was \$.85 above 1980.
2. Milk Income shows the same trend.
3. Cost of production actually declined due to mild winter and softening of feed costs.
4. Return for 11 months of 1981 was up over \$.33 from 1980.

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EXHIBIT 7(a)

Producer (A)					
	<u>New cow entering</u>	<u>cows milking</u>	<u>lbs milk per cow per day</u>	<u>lbs milk per day</u>	
Sept 80	15	217	47.3	10,253	10,400
Oct 80	10	227	46.3	10,540	
Nov 80	9	238	46.9	11,162	10,960
Dec 80	8	229	47.6	10,900	
Jan 81	3	230	48.3	11,240	10,463
Feb 81	2	231	46.9	10,640	
March 81	3	225	48.1	10,822	10,463
April 81	2	226	49.7	11,232	
May 81	1	213	50.5	10,765	10,463
June 81	0	203	52.0	10,560	
July 81	6	185	55.0	10,190	10,463
Aug 81	13	194	53.3	10,340	

Producer "A" milked 16% or 22 more cows in the fall and winter months than he did during the summer months.

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Producer (B)				
	<u>New cow entering</u>	<u>cows milking</u>	<u>lbs milk per cow per day</u>	<u>lbs milk per day</u>
Sept 80	2	266	48.2	12,824
Oct 80	12	272	50.2	13,696
Nov 80	1	264	47.2	12,578
Dec 80	4	267	48.1	12,880
Jan 81	8	271	49.3	12,880
Feb 81	4	269	50.2	13,517
March 81	14	278	49.8	12,854
April 81	11	274	51.3	14,090
May 81	21	295	55.1	16,265
June 81	10	291	54.9	15,989
July 81	6	294	56.1	16,500
Aug 81	5	291	54.2	15,780

269 {
 48.7 {
 50.2 { more milk
 47.2 { in summer 123%
 48.1 { 3100 lb
 49.3 { per day
 13,025
 16,133
 Sold down to 13,000 base
 bought up to 14,000# base
 bought up to 16,000# base
 Sold down to 15,000 base

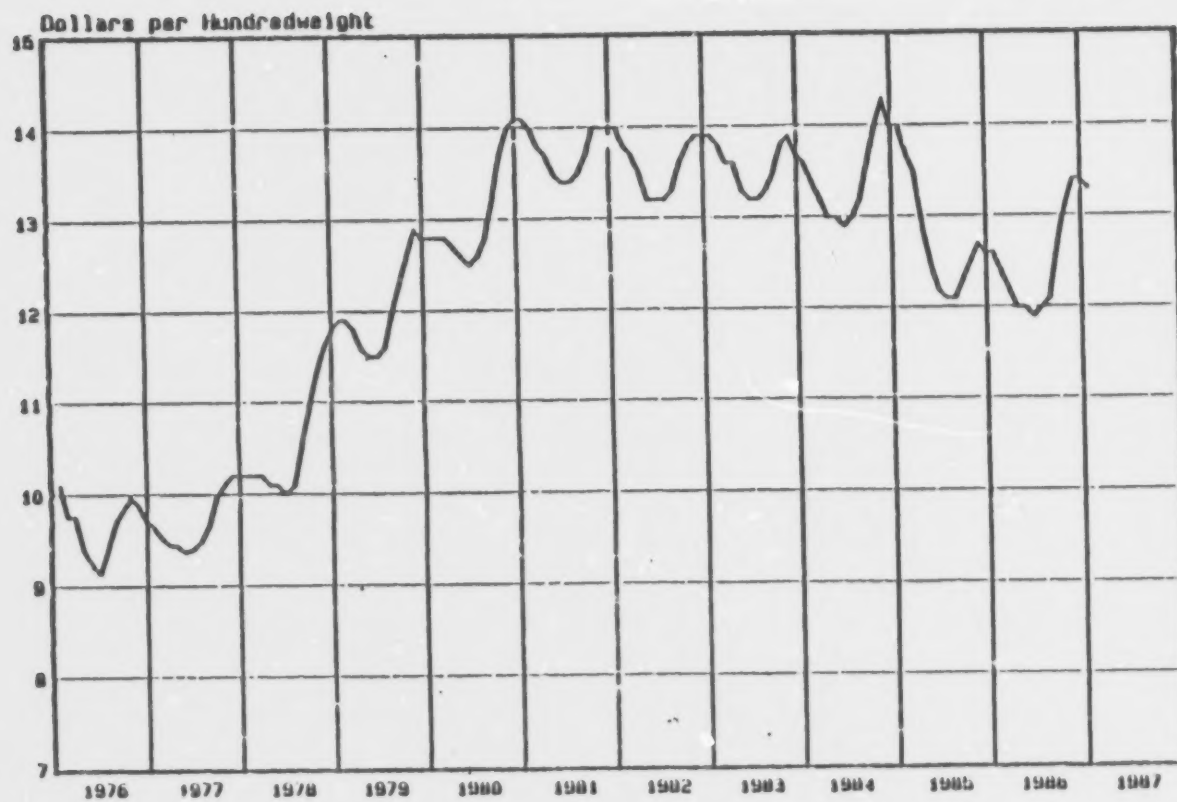
Producer "B" milked 9% or 24 more cows
 in the summer months than he did during
 the fall and winter months.

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(SUPPLEMENTAL INFORMATION)

MILK

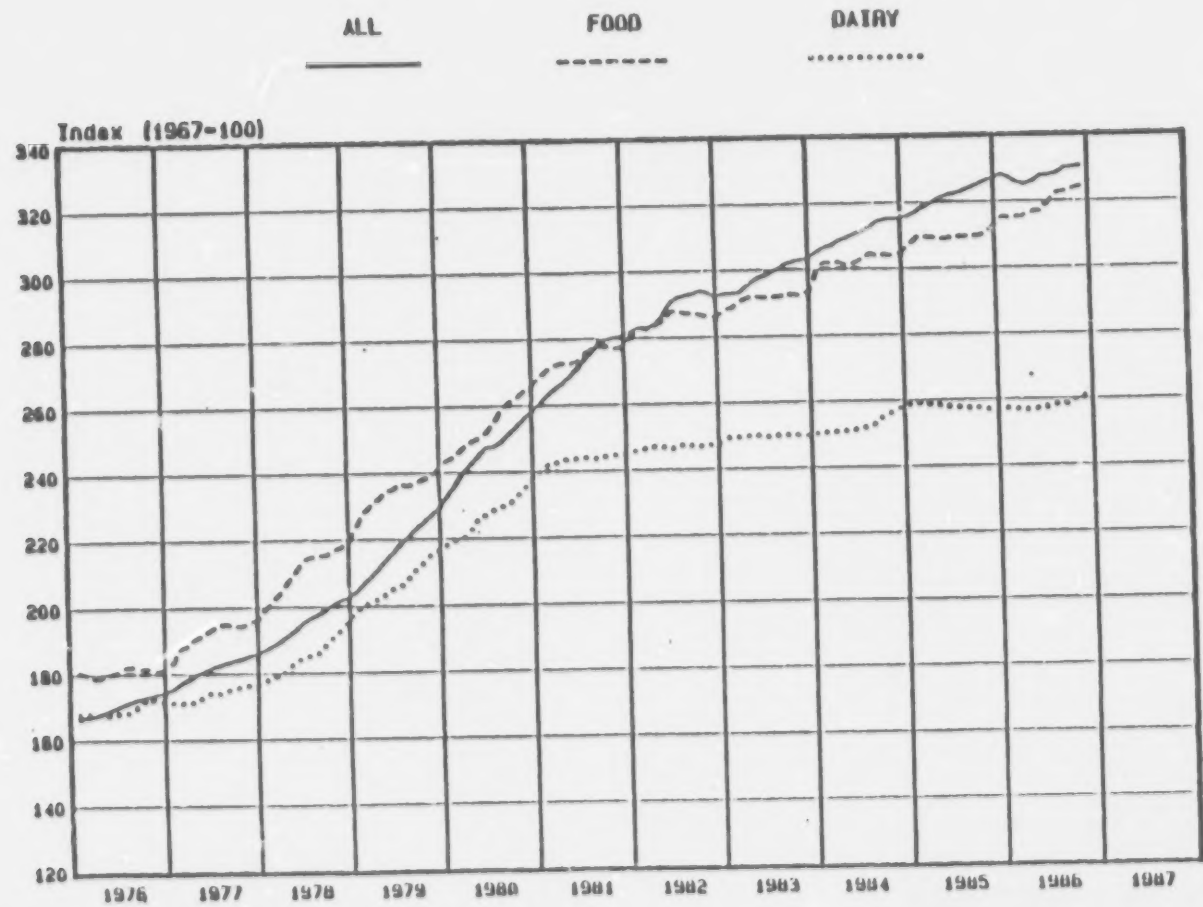
AVERAGE PRICE RECEIVED BY FARMERS, UNITED STATES, 1975-1986



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(SUPPLEMENTAL INFORMATION)

CONSUMER PRICE INDEX
SELECTED ITEMS, UNITED STATES, 1975-1986



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Mr. Rutherford: Thank you very much. Are there any questions? Bob Foster.

Mr. Foster: As I understand it, a producer would establish a base for one year based on the last two quarters of the previous year?

Mr. Weideman: Right.

Mr. Foster: So there wouldn't be any values to the base?

Mr. Weideman: Right.

Mr. Foster: Essentially, a base?

Mr. Weideman: (Mr. Weideman nodded his head.)

Mr. Williams: Sir, along the same lines, do you think that that would cause a base rise every year?

Mr. Weideman: Well, I think that's why I say that USDA, the Secretary of Agriculture, and National Milk will look at the numbers. You've got your production for that half of the year or from July through December; you look at that production and look and see what your sales are doing. If your sales are going up, just like this in 1986, if we use 1986 production history, you would have to increase the dairyman's base by maybe 2 percent production volume, 2 or 3 percent. So you would have to increase from his production and give him a 2 percent increase in production and then when you come back and look at the first half of the next year, you would have to maybe give him 85 or 90 percent of his production to meet it. And that's what I think we need to look at, our numbers, to try to balance out our market and not have these big ups and downs and false markets.

Mr. Rutherford: Are there any further questions? If not, thank you very much.

Mr. Weideman: I have one other copy I would like to have sent out and this is to also show what causes the effect in the market, the cull cow on hundredweight basis of milk and month-by-month each item feed costs and all of that. So that would be for your information.

Mr. Rutherford: If we could have it.

Mr. Lyon: We have it right here.

Mr. Weideman: There is one thing I forgot to mention, I think it's a point to me that has a lot of importance. If you take what the dairy farmer received for his milk over the last 10 years and see what the consumer index is, and that's also in the back of the exhibits, you can see that the dairymen are not getting their fair share of the dollar. You can see that the food and everything else on the consumer index line is climbing a lot faster where the dollar line has come across and the prices are going down for us and yet the consumer is still paying higher prices for other products.

Mr. Rutherford: What do you think is causing it? Where is the spread? Who's getting the difference?

Mr. Weideman: Well, I don't think that the dairymen are getting the dollars they need for their milk that they need to stay in business.

Mr. Rutherford: No. I'm sure many dairyman would agree with you. You're saying the farmer price is going down and the retail price is going up. Who's getting that spread? Is it going to the processing side, or to the retailer side?

Mr. Weideman: Well, I think inflation cost has taken care of that, has done that for the dairy farmer more than for anyone else.

Mr. Rutherford: I don't think you're understanding my question. You said dairy farmers are receiving more and the consumers are paying more. Who's getting the difference?

Mr. Weideman: Well, I didn't say on dairy products, I said they're paying more for other foods and for all other goods. And foods they're paying more than what they're paying for dairy.

Mr. Rutherford: Thank you.

Mr. Weideman: Dairy product is a better buy for the consumer, so no, I'm not saying that the consumer is paying more for dairy foods. They are not paying as much for their dairy products as they are for the other items.

Mr. Rutherford: Thank you very much, Ed. We appreciate it. I would like to ask that the panel of Mike Dickinson, Tom Jenkinson, and Ruth Bowling please come forward. My understanding is you're all representing the Western Dairyfarmers' Promotion Association. You may begin when you're ready.

Mr. Jenkinson: Okay. My name is Tom Jenkinson. I'm the president and general manager of Western Dairyfarmers' Promotion Association and Dairy Council, Inc. We're responsible for the promotion, milk promotion, in the states of Colorado, Wyoming, and Montana. With me today is the chairman of the WDPA/DCI board of directors, dairy farmer Mike Dickinson. Mike is also a board member of Western Dairymen Cooperative, Inc., the co-op formed by the merger of Mountain Empire Dairymen's Association and Intermountain Milk Producers Association. Also here to testify is Ruth Bowling, my administrative assistant/vice president of Western Dairyfarmers' Promotion Association and program director for Dairy Council, Inc. I would like to thank the commission for the opportunity to testify today.

It is our hope that our testimony will reflect our strong need for a better coordinated national program of milk promotion, through the input from grass roots from our local promotion boards.

Dairy farmer funded, governed, locally implemented, non-brand milk foods, advertising/promotion, and nutrition education have been around for many years. In fact, in 1986 Dairy Council of Colorado celebrated its 50th year of operation, and the Colorado Dairy Association celebrated 30 plus years of operation.

National Dairy Council was established in 1915, American Dairy Association in 1936, and the dairy industry has been the leader in commodity promotion ever since. That history is something that local dairy farmers are very proud of and plan to maintain.

I spent 10 years working in California for the California Milk Advisory Board, and I know how important the identity of a successful program is. In 1979 and 1980, then chairman of the board Lou Calcagno and general manger Tony Froya used to say, "California will join National United Dairy Industry Association when all dairy farmers are paying the same for milk promotion." That day came in 1984, and I wish that

CMAD would have joined UDIA. That being the case, I doubt if I would be standing here today, as it has been the split of UDIA/COW that has given strength to the National Dairy Board.

In 1982, prior to the formation of a national dairy board, we at WDPA petitioned the American Dairy Association to investigate a better way to buy television advertising and help the local units operate more efficiently. In 1983, the Rocky Mountain States, North Dakota, South Dakota, Midland UDIA, and Associated Milk Producers formed a network buy that was so efficient that it saved us up to 37 percent on the cost of our media buy. This was the same kind of savings that California, Oregon, and Washington were getting by using West Coast network T.V.

Seeing what an effect this teamwork could have was exciting. Now, for the first time, we could save the dairy farmers real dollars. This spirit of cooperation also made the WDPA/DCI board of directors much more comfortable with the possibility of losing part of their locally generated funds to a national organization.

Our board of directors felt confident that they would have grass roots input for national program development, helping to create a coordinated effort which would be an extension of our already successfully established nonbrand advertising and promotion program.

In the final Booz-Allen Hamilton report, dated December 28, 1983, commissioned by the United States Dairy Promotion Task Force, made up of dairy farmer representatives from California Milk Advisory Board, Oregon Dairy Products Commission, United Dairy Industry Association, Washington Dairy Products Commission, and American Dairy Association of Wisconsin, there was a recommendation, and I quote, "National coordination in implementing the agreed upon strategy will be necessary. National coordination will be particularly important in four areas: media advertising, food service promotions, new product development and introduction, and regional funding considerations. A national coordinated and executed advertising program would improve significantly the cost effectiveness of media advertising, particularly T.V. advertising."

In 1983 the prospects of a strong milk promotion looked bright to the SDPA/DCI board. In 1984 the Dairy Promotion Federation Association was formed as a way to keep California, Oregon, and Washington, who represent only 15 percent of the Nation, in the national program. In 1985 the National Dairy Promotion and Research Board wanted to take control of the national advertising and work directly with the advertising agencies.

With the West Coast on a different strategy and theme, extreme confusion would be caused in the mind of the consumers, so we tried to keep Dairy Promotion Federation Association together. In 1986, in spite of all of the confusion and split in the nation's promotion organization, we still registered an increase of 2.7 percent in milk sales over 1985 and cheese sales rose 8.2 percent, excluding American at 5.8 percent. However, it is not a healthy climate for milk promotion.

The national staff of UDIA and NDB do not work well together. Instead, they try to outdo each other and create ill will back and forth. I find it very difficult to sit through a UDIA organizational meeting and constantly hear what NDB had done to undercut UDIA.

The promotion and education people that you dairy farmers have working for you are better than what they have become under the constant tension with NDB. It appears that now more than ever the only way to get continuity and unity into our program is to consolidate the national staff members.

In closing, let me say that it is not my intention to complain about the staff of UDIA, NDB, or COW, but to let you know that you have a lot of good people in local promotion units that are fed up with the situation and are willing to let the whole structure fall apart and go their separate ways until our national program gets its act together. Just because there are people that say it isn't broken, don't believe them. Our coordinated national milk promotion situation is on its last leg.

And with that, Mr. Chair, I would entertain questions or if you would like to at the conclusion of our presentation offer questions.

Mr. Rutherford: Some of the commissioners have to catch a flight to Springfield. Do any of you who are leaving want to ask questions of Tom? He's made a very powerful speech. If not, I think we'll continue and have the whole presentation.

Mr. Jenkinson: Great. With that, Mr. Chair, then I would like to introduce Ruth Bowling, vice president and program coordinator.

Ms. Bowling: Thank you. I am program director of Dairy Council, Inc., an affiliated unit of National Dairy Council. We provide nutrition education materials and services to Colorado, Wyoming, and Montana.

National Dairy Council was established in 1915. It is a non-profit educational and scientific organization whose mission is to contribute to optimal health through leadership in nutrition research and nutrition education by encouraging food selection patterns that include dairy foods. Dairy Council is both a national and community program with the national office providing direction, technical support, and materials to a nationwide network of 33 affiliated Dairy Council units. Collectively, these units have approximately 250 Dairy Council professional staff members bringing nutrition research findings and nutrition education programs and services to their respective areas.

I would like to specifically address the nutrition research area, the foundation of our Dairy Council program. This research provides significant benefits to the dairy industry. It helps put in perspective publicity on fat and cholesterol, yet supports the positive values of milk in maintaining optimal health as well as providing the basis for promotion and legislative activities. Until 1985, approximately \$500,000 was spent for these research projects. Today, these funds are approximately \$4 million from several different funding sources: National Dairy Council, National Dairy Board, MPSI, Wisconsin Milk Marketing Board, Dairy Council of California, and Midland UDIA. It is true that these additional moneys have made the dairy industry more visible in the

scientific community. In fact, our industry is presently funding more research than is provided in the USDA competitive grants program.

National Dairy Council is responsible for administration and supervision of these grants. The need to maintain a clear delineation between National Dairy Council and its mission and that of the National Dairy Board becomes quite apparent. The red tape and extra layer of bureaucracy required by National Dairy Board has created ill will in some of our major institutions providing these research facilities. Again, there appears to be a duplication of effort in the Science Advisory Committee of National Dairy Council and the Industry Review Committee of National Dairy Board. Obviously, duplication of effort is not the most efficient use of dairy dollars, nor does it provide the confidence of the professional community in our research program.

However, our concern at local level is with questions raised by health professionals or media which may impinge on our credibility in the research community. Press conferences must be carefully handled and not appear promotional. We must never be put in the position of total funding to the extent that it appears that we bought the research. To the scientific researcher or to the health professional, we in Dairy Council are the dairy industry.

Our ability to interpret data to the population we serve provides for us the opportunity to build consumer confidence not only in the nutritional benefits of dairy foods, but to actively combat, through interpretation of scientific data, the displacement of dairy foods by imitation products.

Dairy Council and its program of nutrition education, reaching leaders in the health profession, education and media with research-based data on the need for inclusion of milk and dairy foods in a nutritionally adequate diet, is a vital part of the total promotion program of the dairy industry.

Thank you for the opportunity to appear today.

Mr. Rutherford: Thank you, Ruth.

Mr. Jenkinson: Okay, Mr. Chairman, I would like to have Mike Dickinson, the chairman of the board, testify.

Mr. Dickinson: Thank you, Tom. My name is Mike Dickinson. I have two dairy farms in Thornton, Colorado, milking about 480 head of cows.

As a dairy farmer and chairman of Western Dairyfarmers' Promotion Association, WDPA, and DCI, and director on Mountain Empire Dairymen's Association board, I have been in on the ground floor of discussion on the formation of the now mandatory 15-cent nationwide checkoff for dairy promotion.

I was able to see the hard work that our local promotion association and co-op leadership put into the passing of the promotion order. I also remember what those same leaders and other dairy farmer leaders from around the United States said should and would happen when this order went into effect.

I was privileged to see copies of the dairy industry funded study by Booz-Allen Hamilton and how that study mapped out the different funding regions for different products on a coordinated basis.

With the new dairy promotion order, for the first time in history, all dairy farmers in our Nation would be treated equally when it came to promotion deductions. Now all dairy farmers would pay their fair share to promote the milk they produce. No longer would it just be the dairy farmers from Colorado, Wyoming, and the rest of the West that paid close to 15 cents per hundredweight for promotion.

Let me explain. You see, in Colorado and Wyoming, we have been paying 1 percent on our gross sales. So, in 1983 when the Tobacco Act was signed, we were already paying 14.7 cents per hundredweight to promote fluid milk in Colorado and Wyoming. We were probably making the highest contribution to advertising of any other dairy farmers in the Nation.

So, with the new promotion board organized, we in Colorado and Wyoming would only have 10 cents retained locally to promote fluid milk where previously we had, and needed, close to 15 cents.

We were promised that the National Dairy Board would work with our organizations and take care of our needs. In 1985, because of lack of coordination among promotional organizations, the Rocky Mountain states, mainly Colorado and Wyoming, with a Class I utilization of 75 percent, was let down.

With this lack of grass roots input for a nationally coordinated program, we at WDPA, DCI, and MEDA supported the formation of the National Milk Producers Federation study committee on national organization restructuring to study the consolidation of promotion organizations. Here we are, almost 2 years later, nowhere.

California, Oregon, and Washington pulled out of agreements, claiming they were frustrated and that the plan was going nowhere, and the National Dairy Board continues to dodge its responsibility to grass roots organizations. When I say grass roots organizations, I mean dairy farmers who are elected to serve on state promotion boards.

It is with great disappointment, again, that we are confronted with the National Dairy Board that acts totally independent of its grass roots input; recreating programs, going its own direction, hiring its own ad agency, duplicating existing national staff, and increasing the ultimate expenses to me, the dairy farmers paying the bill.

We do not have a combined effort between the national and local program heads. There is no cooperation between National Dairy Board, United Dairy Industry Association, and California, Oregon, and Washington; only chaos. I also understand that even one of your commissioners made the following statement when talking about promotion organizations, and I quote, "Why solve a problem at one meeting when you can do it in ten?"

Mr. Rutherford: Do you want to name names?

Mr. Dickinson: It's time to stop meeting and act. The dairy leadership of this country needs to solve this problem and soon.

I would like to end with one statement. No additional promotion deduction should be made from dairy farmers' checks until the national organizations are consolidated and the

problem is solved. In fact, perhaps we should escrow all monthly checkoff and basic fees to our national dairy promotion organizations until those organizations consolidate. How long do you think it would then take to come to an agreement?

Thank you very much for allowing me to talk.

Mr. Jenkinson: Thank you.

Mr. Rutherford: First of all, I would like to comment that, Number 1, because I've had a chance to view and become better acquainted with the work that you folks are doing, you should be commended. It's an excellent program. I also understand the frustrations in dealing with all those problems and realize that dairy farmers probably echo everything you have said. I hope you also understand, within the framework of the commission, this is probably an area that we can help bring to a conclusion that's good for all of us. Are there any questions and comments?

Mr. Aycock: I certainly appreciate your forthrightness and frankness in presenting your testimony. We're certainly very much concerned about the same situation. Thank you very much for coming.

Mr. Jenkinson: Thank you very much for allowing us to testify.

Mr. Laurie: I'm a layman in this promotion business, but, I try to sift out what's right and what's not right. What's the solution?

Mr. Jenkinson: Well, it's obvious that we do not have an easy solution. The solution, I think, is going to have to come from a few people making a few sacrifices on a national level. I don't believe we can operate with two individual national staffs. The National Dairy Board now wants to exclusively hire the advertising agency to do cheese and butter advertising. And if that happens, there will be no reason for us locally to do any advertising. We will have had no input into cheese and butter advertising. And we won't do it locally. Those national dollars won't be extended. We need to bite the bullet. If the UDI headquarters in Chicago has to be totally disbanded and headquarters have to be in Washington, D.C., so be it. If we have to have a skeleton headquarters in Washington, D.C., with headquarters in Chicago, so be it. Those are decisions the dairy associations of this country have to make, and they are difficult.

You have UDI board, which is a promotional board, and you have NDB, which has become a very political board and somehow getting better promotional mix on the board or putting on a whole wing of promotion or another board, a promotional board, and bringing the two together, one of the two things have to be done.

Mr. Laurie: Well, as I look at it, the National Dairy Board is an entity that's not going to go away.

Mr. Jenkinson: Exactly.

Mr. Laurie: So it has to be addressed as such. Why doesn't the National Dairy Board hire the already existing facility of UDIA, or the National Dairy Council? Why don't they move that in under the aegis of the National Dairy Board and go to work? This whole discussion is going to get to a point where it's going to destroy everything that we the producers have

worked for over the years in terms of funding promotion. At some point in time, the producers are going to say, "Listen, we're tired of this mickey mouse and promotion has got us nothing but one big fight. They're throwing our money away fighting against each other. Let's forget the whole thing." That's a real danger.

Mr. Jenkinson: You're correct. That's why I would like to see this Nation's dairy farmers move for a solution, and the one that you have recommended I think would be excellent. If we could get to that point where NDB would use all the existing staff of UDIA and the facility, have its regular store agency in Washington, D.C., if that's the case, if it needs to be, and use their staff members to the best ability; but we have duplicated a dairy research staff at NDB when we already have a research center and research staff at UDIA. So there's a lot of duplication that has to be addressed. And the fact that all those talks have now come to a halt is not the answer.

Mr. Laurie: At some point, there's going to have to be someone outside of the National Dairy Board hierarchy and the UDIA hierarchy that finally makes a decision. They are so involved in it now that they can't see the forest for the trees.

Mr. Jenkinson: That was the intention of the National Milk Producing Committee. Unfortunately, both sides, I think, got the committee waylaid.

Mr. Rutherford: Any other comments? Thank you very much.

Mr. Jenkinson: Thank you very much, Commissioners and Mr. Chairman. Thank you.

Mr. Rutherford: I would like to ask Mr. Jerry Jaeger from the Dairymen's Creamery Association of Idaho to come up.

Mr. Jaeger: Thank you. I am Jerry Jaeger, a dairy farmer, from Cambridge, Idaho. I'm vice president of the Dairymen's Creamery Association in Caldwell, Idaho. I have been dairying for—well, since 1962 when I returned from the University of Idaho with a degree in dairy production and started on the family farm where we have, since that time, approximately a head of Holstein cows.

Idaho has historically been an exporting state for dairy products. We produce in excess of 2.3 billion pounds of milk annually and have only about 1 million people in the entire state. In fact, we probably have the highest per capita production of dairy products in the Nation. I'm not absolutely certain of that, but I think it can't be far off. Dairymen's Creamery Association, with a membership of 450 producers, markets about one-third of Idaho's milk production. We are, in fact, the highest milk production state in this region.

We support the current price support system, but feel it needs to be protected from becoming overly burdensome to the taxpayer. The support of manufactured product prices should be maintained on a national basis and not priced by regions. These products are easily transported at a minimal expense and should be produced where the cost is less. Regional pricing would promote production in high cost areas. An example of moving product long distances took place last fall when Dairymen's Creamery Association in Caldwell, Idaho, shipped cream, for ice cream production,

all the way to New Jersey. And, incidentally, that purchaser commended us for the quality of that cream when it arrived there. This was at a time when we were supposedly in a surplus production period, but the milk fat that was closer to New Jersey was apparently committed to other sales. High quality sweet cream can be shipped long distances at a minimal cost. To give you a little more information on the quality, just last month, our cell somatic count on 70 percent of our milk pool was less than 300,000. That's not just once during the month; that's the average on every pickup that was tested on cell somatic. We support the Federal Order System, but feel that differentials should be set by the hearing process and not by Congress. These values should be based on costs associated with supplying a market and not how much political clout the producers have. The cost of balancing the needs of a market with both seasonal and longer term supply fluctuations should be considered. Plus, the surplus production in a surplus area should be used to supply the needs in a deficit area. The whole purpose of the Federal order system is to insure an adequate supply of milk and see that producers participate on an equitable basis. The tremendous increase in consumption of dairy products over the past 3 years speaks very well for our national promotion efforts. We support the continuation of the 15-cent checkoff and the consolidation of our promotional efforts as proposed by National Milk Producers Federation. Even now when we are in the flush period of production, CCC is receiving very little product except for nonfat dry milk. Our surplus production, currently at least, seems to be in solids, not fat. I would suggest two changes to our current program to reduce this problem and solve the problem of regional supply deficits.

We should increase the minimum standards in fluid milk to use what our cows produce and also give the consumer a better product. As we have been breeding our cows to produce more and more milk, we have been getting lower and lower solids content. Fat consciousness has caused the consumer to want less fat. We have provided a service to her in providing a low fat product which does not taste as good as whole milk because of the low solids content. We also charge less for it so she is willing to buy it even though the flavor is not as good. Consequently, she will ultimately consume less of it. We can solve this problem by adding back some solids, not fat, which will improve the flavor. She will still have her low fat product. We have created some of the demand for low fat product by price. I think we could learn a lesson from the petroleum people when they made unleaded gas available. Was the price less? Competition in the marketplace with price will not allow this problem to be solved, but increasing the minimum standards will.

Now, it seems like when we in the dairy industry start developing policy, especially on a national basis, we start creating barriers and restrictions to protect our local markets from each other. These ultimately turn into massive restrictions to the orderly marketing of our national milk supply and stimulate surplus production.

We should make provision in our Federal Order System so that Grade A cream and nonfat dry milk or condensed skim milk could be reconstituted and blended into the local supply of Class I milk in a deficit market. This would reduce the

hauling costs, meet the market's needs at a minimal cost, and reduce the surplus. This concept does not destroy the Class I differential system if it is controlled and accounted for by the Federal Order System in cooperation with producer groups in the deficit market. The fruit juice people seem to do this quite well.

We do support the import quota restrictions we now have and support a quota restriction on casein imports. These import restrictions are necessary to keep the support program from becoming overly burdensome to the taxpayers. The importing of 3.5 billion pounds milk equivalent of casein last year becomes a very significant figure when the current dairy legislation places the price support trigger at 5 billion pounds milk equivalent. The 3 percent surplus the 5 billion pounds milk equivalent represents seems to be a very small surplus to maintain in an industry where the supply can be adversely affected by weather, seasonal variation, and a multitude of other factors. Any form of supply management in the dairy industry must be protected with import quotas on all products, including casein. We are opposed to a national quota program because the quota value becomes an added production expense.

In light of the testimony that was given earlier, I would like to give you a little bit of history of Idaho's production and where the marketing has taken place. Dairymen's Creamery Association is an outgrowth of the consolidation of three cooperatives which were butter powder plants, marketing milks primarily in California in the form of butter powder through the Butter and Cream Association, from there, to Consolidated Northwest. And we have been part of the development of the Butter and Cream Association in instant nonfat dry milk in the late 1960's. From that, we turned to becoming a member of WDCI when it was originally formed, and we marketed to the region down here. And the testimony earlier pointed out the high cost of shipping in the milk market, shipping it to plants that can convert it to products. I would like to clarify that, the fact that almost 100 percent of WDCI's current production in western Idaho is marketed through Dairymen's Creamery Association. The plants are where the milk is. The cost is getting the milk to the market, not getting the surplus away from the market, particularly from this region. And that's what I'm alluding to when I say that the costs involved in balancing that market need to be taken into consideration in not only regional—excuse me—seasonal periods of fluctuation, but over long-term periods.

Mr. Rutherford: Thank you, Jerry. Wil Turba.

Mr. Turba: Two comments and one question. When you started your testimony, you suggested that maybe Idaho had the most production per capita. I did some quick arithmetic; Wisconsin is double Idaho.

Mr. Jaeger: Is it?

Mr. Turba: The other comment is in regard to comparing the unleaded gas and saying the price was not less. There's a little difference there because the consumer was forced to buy the unleaded gas because of different size nozzles and a different size hole in his car.

The question is, you mentioned in regard to increasing the minimum standards of food that a number of states have

them. You're suggesting national change of standards, aren't you?

Mr. Jaeger: Yes, and that would force her with standards. I mean that's the correlation there.

Mr. Turba: Yes. All right.

Mr. Rutherford: Bob Foster.

Mr. Foster: What are your standards currently?

Mr. Jaeger: In Idaho?

Mr. Foster: Yes.

Mr. Jaeger: They are the lower, the three-two.

Mr. Rutherford: National standards are two-five?

Mr. Jaeger: That is right.

Mr. Rutherford: Pearson Knolle.

Mr. Knolle: Would you advocate paying for higher solids?

Mr. Jaeger: Pardon?

Mr. Knolle: If you raise the standards, would you also be in favor of paying for the higher solids, proteins?

Mr. Jaeger: Well, it has to be paid for, yes, I think so. It would increase the cost to the consumer to a certain extent, but I believe that we look at it from a nutrition standpoint. We have actually been cheating the consumers. We've taken it away from them through our breeding program. We've reduced the solids over the years. If you go back historically—and we—I guess what they didn't know didn't hurt them, but it did hurt them. I think we as an industry should be looking at what our cows produce, and I think we could do a service by putting the solids back in and help our own problem.

Mr. McSparran: You mentioned reconstitution of product. Wouldn't that destroy some of the pricing ability we have now as far as reclassification sale of Class I, Class II?

Mr. Jaeger: I don't think so. I think if the proper controls are put on it, as I mentioned, with being accounted for through the Federal system and those Class I systems go back to the source of origin. As has been mentioned earlier, we have the vote order premium in the market. I guess as I look at our reason here, back when we were in a deficit situation, a large volume of milk was shipped from Idaho to Denver to supply this market. And then the price of transportation went up. It became more and more difficult and a great effort was made in this area to increase that supply of milk, so it didn't have to be shipped in and this area has one of the higher vote order premiums of the United States, yet we aren't that far away in Idaho, and we have a tremendous surplus in milk. I think the first step would be maybe as we look at our technology, just using condensed, maybe nonfat. I think we've come a long way in our technology, and I think we can get our product out to the consumer that she will accept. That will solve some of our problems by using this.

Mr. Rutherford: Thank you very much, Jerry, for your testimony. I would like to ask Clint Warby from the Utah Dairy Commission to come forward.

Mr. Warby: My name is Clint Warby, and I serve as the administrator of the Utah Dairy Commission. I thank the

national commission for the opportunity to present testimony today. The Utah Dairy Commission is a quasi-state agency established by the Utah state legislature in 1971 to promote, protect, and stabilize the state's dairy industry. Our primary purpose is with promotion, advertising, and research for the dairy industry. Prior to 1984 and the establishment of the National Dairy Board, we received our funding from a state checkoff equal to about 14 cents per hundredweight. We are now at the 10-cent per hundredweight level. To help us with our efforts, we belong to UDIA and in turn with National Dairy Council.

Our media market covers the same area as our Federal milk order, titled the Great Basin-136, which includes most of Utah, eastern Nevada, western Wyoming, and southeastern Idaho. With the advent of the national checkoff, dairymen in western Wyoming and central and southern Nevada have elected to have their 10-cent state portion sent to our organization. Therefore, we are responsible for implementing the programs of promotion, advertising, and nutrition education and research in those areas, which include the major Las Vegas market. In addition, we have contracted with the Nevada Farm Bureau, who has been qualified by USDA for the 10-cent checkoff for Dairy Council activities in the Reno area. Therefore, our area of responsibility is quite large: from Jackson, Wyoming, to Las Vegas to Reno to Salt Lake City and everything in between.

We have done quite well over the years in dairy consumption in these areas. In fact, we claim to have the highest consumption of dairy products in the country within this geographical boundary. USDA figures show that we are averaging a 9-percent increase in Class I sales over last year, and we estimate our per capita consumption of Class I at about 145 quarts per person per year. We have included a chart with our testimony to show how that compares with recent years. We also estimate our cheese consumption to be about the national average, and ice cream is also on top at about 8 gallons per person per year.

Why do we do so well? There are many factors, and we think our promotion and nutrition education programs play a major role for our success. In addition, we have a unique marketplace, which is shown by another chart included in our written testimony. We have a lot of children. In fact, we lead the Nation in the amount of share of children. This is our target audience. This is where we need to concentrate our efforts, and we sometimes come into conflict with our national organizations because national priorities are at times different than ours. We recognize that funds should be spent on national programs, and we believe that to be the role of the National Dairy Board, hopefully to be merged as soon as possible with UDIA and COW. But we also need to keep sufficient funds at home to take care of the unique needs that we have.

Last year our board voted to approve some modifications to the NMPP plan to merge the National Dairy Board with UDIA and COW. Because there is still a deadlock on approval by all parties in this matter, we submit to this commission this compromise plan. I will not go into great detail because it is written, but may I summarize it as follows: One, there needs to be representation on a National Dairy Board from state and regional dairy promotion organiza-

tions. It needs to be at least fifty-fifty. We believe that this can be immediately done by requiring the Secretary of Agriculture to make appointments from nominations submitted by the state/regional units. We estimate that about one-third of the National Board has representation already from those units.

Number two, we can keep for now the size of the National Board at 36 and replace by attrition new members from state and regional units. Then if changes need to be made as proposed in the NMPF plan, this can be more easily accomplished.

Three, we need to have state/regional representatives serving on the various committees of the National Dairy Board. This offer has been extended by the NDB, and we need to work and plan together. This should also be the situation with all managers of all units in the country.

In summary, our board believes that the current impasse in national dairy promotion be solved as soon as possible and that we get on with the business of marketing milk. We also believe that promotion alone will not solve our current problems. We believe that we should develop a long-range solution and not use the Band-Aid approach that has been applied in the last few years. That is a big task approaching this committee. Nobody ever said it would be easy.

I would be happy to answer any questions you may have. I also will add, there's a lot more written detail I will not go into.

Mr. Rutherford: Thank you. I hope you have submitted your program to the National Dairy Board.

Mr. Warby: We did that last year and it was kind of put on hold because of the situation we currently find ourselves in. That's why we're beating the drums again.

Mr. Rutherford: As I said before, we are probably going to be able to comment in our commission report, but not necessarily in any real direction. I think just getting your feelings out is going to be a big help. Are there any questions? If not, we thank you very much.

Mr. Warby: Thank you.

Mr. Rutherford: Is there anyone else who would like to testify before the commission at this time? If not, we'll bring the hearing to a conclusion. I want to thank everybody for their participation and support. I hope everybody has a safe trip home. Thank you.

WHEREUPON, the within proceedings were concluded at the approximate hour of 12:30 p.m., on the 14th day of July, 1987.

Arlington, Texas
July 15, 1987
Arlington Hilton
9:00 A.M.

Mr. Rutherford: I want to thank everybody from the mid-south area of the country for making our visit here very enjoyable. I also want to thank Texas Farm Bureau for welcoming the Commission and for helping us, through their programs, to better understand agriculture, and particularly dairies, as it relates to this region of the country.

I would ask that people making statements would limit their testimony to approximately 10 minutes. I will be recognizing Commission members for questioning. I will also be controlling those questions, so that we can stay on schedule. Everybody will have a chance to testify before the Commission. If there is someone in the room that would like to speak to the Commission and has not registered, please do so at the table outside. If anyone has a time problem because of other commitments and would like to have his/her testimony time changed, please let me know and I will try to accommodate you.

At this time, I want to start the Commission proceedings. I want to recognize a statement which has been submitted to me by Congressman Stenholm, and it will be put into the hearing record. The Commission certainly wants to thank the Congressman for his full support of the Commission's efforts. We will be going right straight through, if we can, without any breaks.

(The following is from a statement submitted by Congressman Charles W. Stenholm, Chairman, House Agriculture Subcommittee on Livestock, Dairy and Poultry.)

Chairman Rutherford and members of the Commission, I first want to welcome you to Texas. You are now in a state where dairy production accounts for over \$575 million in cash receipts on an annual basis—a vitally important industry, indeed!

As you are aware, I have been a vocal supporter of the Commission's purpose, activities and mandated responsibilities as provided for in the Food Security Act of 1985. Moreover, this Commission, composed of 18 dairy farmers, signifies an honest attempt by Congress to receive the considered judgment of a representative group of nationally respected producers on long-range policy.

In analyzing the legislative language which provides your special charge, the mission and scope are clear. The 1985 Farm Bill directs the Commission to look at the current federal price support program for milk, alternatives to the program, as well as the program's future. In addition, you are requested to examine new technologies that will become a part of the milk production industry before the end of this century, coupled with what effect those technologies will have on surplus milk production and the future structure of the milk production industry. Put simply, what long-term policy will best ensure a stable and wholesome supply of milk and dairy products which promotes and fosters the

economic well-being of dairy farmers and doesn't bust the budget in the process?

Prior to the 1985 Farm Bill, as we all remember, the dairy industry was filled with uncertainty. Milk production was increasing at an unprecedented rate of 8 percent per month over the previous year and showed no signs of decreasing. Commodity Credit Corporation (CCC) purchases of dairy products were mounting at an unacceptable pace. The situation today, however, is much improved.

Granted, the Food Security Act of 1985 isn't perfect, and it certainly hasn't yet solved all the problems we are facing in some areas of agriculture, but the law has produced some progress, including welcomed improvement in the dairy area. For example, the Dairy Termination Program (DTP) has generated some positive effects by helping reduce milk surpluses and Government costs through the termination or export of dairy cattle. However, we must be careful not to lull ourselves into a sense of security that the national surplus problem will now fade out of existence. It is important to keep in mind that the buyout program should not be viewed as a solution of and by itself, but as the best short-term policy tool that could be put together given the diverse interests and regional differences involved.

Moreover, Mr. Chairman, the 1985 Farm Bill has changed the commodity pricing environment and has helped create the right climate for serious discussion of agricultural trade issues. Consequently, the opportunity now exists for multilateral action to reduce agricultural subsidies that have stifled our ability to compete with other exporting countries.

Therefore, I believe the 1985 farm law will continue to serve as the benchmark against which any future farm policy modifications must be judged. That is not to say that other programs couldn't work or shouldn't be considered. In this regard, I look forward to whatever advice may come from the Commission.

Let me be quick to point out that I am keenly aware of the diversity of the dairy industry across this country and of the particular viewpoints regarding the direction of dairy policy, but I cannot emphasize enough how important it is that the dairy industry and all dairy farmers be united if the agricultural community on Capitol Hill is to use all its influence to maintain a sound national dairy policy.

In closing, I want you to know that you have my admiration and sincere appreciation for the quality time and effort which is being devoted to such a complex and important task. You are a highly respected group chosen by the industry leaders of your region of the country.

Thank you for coming to Texas. Thank you for giving of your time, and good luck.

Mr. Rutherford: To begin with, I'm going to ask three individuals who are representing Associated Milk Producers if

they would come forward. They are Bill Bugg, Bill Thorton and Lee Wolf. Lee, you get to go first?

Mr. Wolf: No. We'll let the two Bills go first.

Mr. Bugg: That's what seniority has for you. Since I'm the first one out of the chute, and knowing the people that are going to follow me, I can only guarantee the Commission that it will get better down the line. I'm going to speak to you on the Dairy Price Support Program.

The Dairy Price Support Program, the primary focus of your work, is the basic element of price stabilization in the dairy industry. There's often a temptation to regard the program as an operation of concern primarily to those producers whose market is a manufacturing plant.

This is not the case, really. By providing a market of last resort for milk any place in the country, the price support program effectively reaches all producers. Further, the structure of milk price support across the country is very closely related. The Minnesota-Wisconsin Price Support Series for Manufacturing Grade Milk is used as the basic price in the Milk Market orders. The price support level is the most important factor in determining the lower limit of the Minnesota-Wisconsin series. Even in markets not covered under the Market Order, prices are generally very closely related, and this does affect all dairy farmers.

The Dairy Price Support Program is an example of a government program that has been effective, and it has stabilized the market for farmers so that they can make management decisions to allow them to be more efficient. And it's difficult to rationalize such a change in the case of the Dairy Price Support Program. The record of improved efficiency on dairy farms and in the markets, the steady decline in real dairy product prices and other changes we have witnessed in the past 40 years—And I have been in the dairy business for 40 years. I was married and started in the dairy business in 1949, and I've seen a lot of these changes come about. More appropriately, I think the case can be made that the program has encouraged and fostered these changes.

Some have made the case that changes achieved in the past 40 years have rendered the program obsolete and unnecessary. These are based on arguments that today's highly efficient and specialized dairy farm is able to survive instability that would characterize peaks and valleys in the absence of the price support program. The wide swings in price, both seasonally and cyclically, could be borne, it is reasoned, because of better marketing knowledge and improved marketing conditions.

This ignores the fact that there is really very little the individual can do, short of going out of business. He has very little control. And just yesterday, two of my dairy farmers in my county, respected dairy farmers, one of them filed bankruptcy; the other one just turned the keys over to the bank and walked out. One of them is in his late 30's. The other one had two sons in it. One was a 200-cow operation. The other one was about a 100-cow operation. It's very discouraging whenever you hear things like this. They were very well respected. They're good dairymen, good people, and it's a big loss. And this is just a minor instance. There will be more, I'm sure.

Frankly, I feel the dairyman of the 1980's probably has a greater need for price support than his counterpart in 1949. And as I said, I was married in 1949 and we started in the dairy business. Today's dairy farm is more highly specialized. They also lack the risk spreading ability of diversification that they had in the 1940's. The investment in livestock, equipment, land, and technology is much greater, increasing the producer's risk. Finally, the reliance on off-farm sources for inputs is much greater than a generation ago.

As necessary as the price support is, the program is, it can and should be improved. The addition of a voluntary standby supply management authority to overall price support policy would greatly help dairy farmers. I believe with the price support program being just slightly fine tuned and adding some kind of a supply management program, we could tailor a very efficient and not very costly dairy program. I think it could be worked out.

Too many of the times the Termination Program, the Diversion Program, both have done their jobs in a short-run; the Diversion Program, was too short and I think about every dairy farmer could tell you that. We knew at the time it was too short. Had it have been 2 or 3 years longer, it would have worked. It would have worked a lot better than it did. The Termination Program, it was so new, and we heard this morning of the many mistakes that were made of not understanding what was going to happen. The Termination Program possibly could be worked as a supply management program if there were changes that were added to it.

Looking at the price support program itself, the major mechanism of the Commodity Credit Corporation purchase program needs some adjustment. When CCC determines the purchase price for products through which it will implement the price support operation, it adds what is termed the "make allowance" or "processing margin" to the announced price support level. This is done to allow a processor of average efficiency to have enough money left after selling the product to the CCC purchase and meeting his own costs, to pay the dairy farmer.

It's really a simple concept, but the last time the make allowance was changed was in 1979. The present make allowance of \$1.22 per hundredweight for milk made into butter and nonfat dry milk and \$1.37 for milk made into cheese, is sadly out of date. Labor, energy, packaging, and other plant costs have increased substantially since 1979. Failure to use adequate make allowances in setting CCC purchase prices has been a major factor in the Minnesota-Wisconsin price falling far below the price support level for much of the period since 1980. There's a chart attached to the back that demonstrates the Minnesota-Wisconsin price in relation to the support price level. The two times when it greatly increased was when we had the Diversion Program and the Termination Program.

We also need to restore establishment of the price support level itself to some effective indexing mechanism. From 1949 to 1981, the parity formula, coupled with some Secretarial discretion in the form of the 75 to 90 or the 80 to 90 percent of parity range, was used to establish the support level. Since 1981 the level has been determined primarily by negotiations or horse trading, if you want to put it that way.

Some people feel that if they lowered the price support, that the milk production will go lower. It just will not work that way. It doesn't work that way. Any time if you lower my price out there and I've got commitments, the only thing I can do is increase production. And it's just like a dog chasing his tail. It just goes on and on. And if we get this 50-cent cut in January, you're going to see production go as high as people can push it. They'll put the grain into them. They're going to add as many cows—These two farmers that went out, this production, probably, most of it will not be lost. Somebody else, if they can get the money, nearly to go under, "I need a few more cows. I need to get some more milk so I can have some more cash flow." And we really need to put some stabilization into this dairy industry. I think we can do it. We can do it if we can come up with some kind of a supply management program and an indexing for a price support so that you can make management decisions.

We all know in the dairy business that you need to make those kind of judgments down the road. If you bring heifers into your herd, it takes them 2 to 5 years to mature into cows and reach peak production.

The very best forecasts of economic conditions are inadequate to look 4 or 5 years in the future. And the comment that I make, and I hope I don't offend any economist, but I really believe that if the economist's salary depended on their accuracy, there would be a tremendous amount of them on the welfare line, because they just don't get it right. And really, our income depends on their accuracy, because legislation is tuned to what they predict, so this legislation is passed. If it doesn't happen, "Well, by golly, we better go back and rewrite it again."

And I really would like to see some kind of legislation come out that is not—it offends me to see the Government make big outlays into the Dairy Program. I think supply management could be worked out where it doesn't cost the Government a tremendous amount of money. We could keep the people there, and then if we need more milk, they're there. These two farmers that went out, hey, they're never coming back. You just don't see people come back. They're not going to be back into the dairy business. And we can't just keep getting bigger and bigger. I have a 75-cow registered Holstein herd, and we used to call it a family dairy farm, and now it's his and hers. And my wife does a lot of milking, and I do the feeding when I'm not running around doing this. I fed last night.

The dairy industry recognized this problem several years ago. As part of the recommendations for the 1985 Farm Bill, AMPI, Associated Milk Producers, called for the return of the indexing mechanism for the price support program, recommending use of a dairy parity formula developed by National Milk Producers Federation as a starting point. And just as a starting point, not necessarily that adopted by the House of Representatives. They did adopt this, but it was deleted in the House-Senate Conference Committee. The price support program continues to be an effective and a needed program. There are changes which can make its operation more effective and responsive to producer, consumer, and Government needs. These do not, however, require a major change in the basic program structure or in its operating mechanism.

I and fellow dairy farmers from Oklahoma urge you to recommend some kind of supply management along with an indexing system for the price support program. We have been told that the dairy industry needs to get together on programs. I firmly believe that 60 to 70 percent of the dairy farmers want some kind of supply management program. There's some that I would like better than others, but I would support practically any kind of supply management program. If the President of the United States was elected by such a margin, we call it a landslide, 60 to 70 percent. So I think that's pretty well together.

I would like to thank the Commission for letting me be here to testify. I wish you well in your deliberations, and hopefully we can come up with some kind of a recommendation that will be helpful to the dairy industry in the years to come. Thank you very much.

Mr. Rutherford: Thank you Bill. Bill Thorton, you're next.

Mr. Thorton: First I'd like to apologize. I think I slept with the air conditioner on last night, and I sound like I'm talking in a barrel or something this morning.

I'm Bill Thorton, a dairy farmer from Carlisle, Arkansas. I'm a member and director of Associated Milk Producers Incorporated, and I'm also a member of the Board of Directors of United Dairy Industries Association. I appreciate this opportunity to participate in this hearing and examine the dairy price support policy and directions for the future. The Dairy Price Support Program has probably been the most effective farm price stabilization program operated as part of the national agricultural policy. It has achieved its purpose of assuring an adequate supply of milk on a consistent basis and has, during most of the periods since 1949, done this at a moderate Government cost. At the same time, producer income has been stabilized, and consumer prices have been steadily reduced in real terms. While overall dairy policy can and should be strengthened by the addition of a standby supply management authority to be used to head off buildup of excessive productive capacity, the price support program itself remains an effective and needed basic element of dairy policy.

I would like to direct my comments today primarily toward national dairy promotion efforts and the impact they have had and could have on the price support program.

During the 3 years since establishment of the national, full participation, dairy promotion program, dairy farmers have provided more than \$200 million annually for product promotion, research, and education. In 1985, commercial use of milk and dairy products was 134.3 billion pounds, almost 12 billion pounds or 10 percent higher than in 1983. This is the greatest sustained consumption increase in history. It is more than triple the consumption growth witnessed during the 3 years prior to the establishment of the national promotion program.

If consumption growth over the past 3 years had remained at the rate experienced in 1981, 1982, and 1983, with milk production at 1984, 1985, and 1986 levels, Commodity Credit Corporation dairy product purchases under the price support program would have been more than 17 billion

pounds greater, adding an additional \$2.7 billion to Government costs.

This is a remarkable record. It is also a tribute to the persistence of dairy producers who continued to seek authorization of the national promotion program in the face of Government and other criticism that promotion program did not work or had a very limited value at best. Today these doubts have been quieted. Dairy farmer support for the promotion program is strong. The self-help nature of the industry's markets is one of which we can be justly proud.

This is not to say that improvements cannot be made in the promotion effort or that it may not have broader applications as part of dairy policy. The major question before the dairy industry today is whether the Secretary of Agriculture's estimates of CCC purchase for calendar year 1988 will exceed 5 billion pounds, requiring him to reduce the price support level 50 cents per hundredweight January 1, 1988. Most preliminary forecasts of CCC purchases in 1988 indicate that the estimated removals of 1988 will be close to the trigger level.

Recognizing this, as well as the need to maintain farm income while reducing federal expenditures, the delegates at AMPI's annual meeting last spring adopted the following resolution: "Therefore, be it resolved that AMPI supports action short of reopening the 1985 Farm Bill to assess an additional 10 cents per hundredweight starting September 1, 1987, for advertising and promotion on the national level, with the requirement that the Secretary of Agriculture's ability to reduce the price support January 1, 1988, would be delayed until at least January 1, 1989. If at that time, January 1, 1989, the milk equivalent of CCC purchases is still projected to be in excess of 5 billion pounds, the Secretary may have the option of reducing the price support level 50 cents and will discontinue the additional 10 cents per hundredweight for advertising, promotion and research." This proposal was developed by dairy farmer members of AMPI to provide a policy alternative to further price support reductions.

Rather than reducing farmer income by up to \$700 million, it would add about \$180 million in producer funds to the monies available for promotion over the 16-month period, September 1987 through December 1988. By increasing commercial consumption, the volume of dairy products offered to Commodity Credit Corporation under the price support program will be reduced, cutting those costs.

As you know, the primary alternative under current law is to reduce the price support level. The theory underlying price support reductions is that they work in two ways to balance supply and demand. First, production is reduced as producers are forced out of business or seek more rewarding uses for their resources. Second, the reduced price attracts increased consumption as the consumer finds the product a better buy than other competing food items.

In the long run, it is possible to reduce production by forcing producers out of business. In the process of getting to that point, however, dairy farmers are going to do everything possible they can to stay in business and to preserve their farms. This means actually increasing production, if possible, to meet commitments.

The failure of price cuts to reduce milk production can be seen in what has happened over the past 4 years. Since late 1983, the price support level has been cut 13 percent. The production reductions that have taken place have been while the limited supply management efforts provided by the Milk Diversion Program and the Dairy Termination Program were in place. Milk production actually moved to record heights in late 1985 and early 1986, when neither of these programs were in effect.

On the consumption side, farm price cuts are seldom passed on to the consumer. As shown in the charts, the farm price for milk has declined pretty steadily since 1981, standing at some 5.6 percent less at the end of 1986. At the same time, the Bureau of Labor Statistics index of Retail Dairy Product Prices has increased almost 8 percent since 1981.

The price cutting operation is a lose, lose, lose policy. Dairy farmers lose in terms of lost income and eroded asset value. Consumers lose in that promised, hoped for price reductions seem to escape them. Government loses by virtue of the fact that costs under the price support program are not reduced to the extent forecasted, if at all.

It would be better, as a short-term effort, to make use of the proven vehicle of increased product promotion to ease cost burdens.

I appreciate this opportunity. I feel the work of this Commission is extremely important to the future of the dairy industry in this country and wish you well in your deliberations. Thank you very much.

Mr. Rutherford: Thank you, Bill. Lee.

Mr. Wolf: Good morning, Mr. Commissioners, fellow dairy-men, ladies and gentlemen. I appear before you this morning with the Impact of Dairy Product Imports on the Dairy Price Support Program.

I am Lee Wolf, a dairyman from Gainesville, Texas. I am also First Vice President of the Associated Milk Producers, Incorporated and President of the Southern Region of AMPI. I appreciate the opportunity to appear before you today.

The Dairy Price Support Program has worked efficiently and well, providing the stability and price assurance needed to assure an adequate supply of milk. The program continues as a sound basic dairy policy. I do feel the addition of the standby supply management element, to be used in conjunction with the price support program, is necessary both to maintain farm income and control Government costs.

A major factor of the success of the price support program has been the ability to prevent use of the U.S. market as a dumping ground for world dairy surpluses.

Section 22 of the Agricultural Adjustment Act gives the President authority to limit imports of a product if those products interfere with or threaten to interfere with the effective operation of a domestic price support program.

This has been used to establish a comprehensive system of dairy import controls. Table 1—That's on your third to the last page. If you would, study that in detail later on. Table 1 details existing Section 22 quotas and recent imports of these products. While dairy product imports have increased

more than five times since the first Section 22 limitations were established in 1953, today's imports are much lower than they would be in the absence of these quotas.

Casein is the only major dairy product not covered by import restraints. Last year casein imports totaled 229 million pounds, equivalent to more than 8 billion pounds of skim milk.

Casein is the principal protein in milk. It has long been used in such products as adhesives, paint, paper coatings, and plastics. With the growing sophistication of food science, it has been recognized as a valuable protein source, and is now an ingredient in many foods, particularly imitation dairy products. In 1980, USDA estimated 48 percent of casein imports were used in products of food and animal feed products where casein replaced domestic milk solids. The largest and fastest growing of these uses was imitation cheese.

Domestic casein production halted in the 1960's, due to the availability of heavily subsidized imports. World prices for casein, as with other dairy products, are determined by subsidies used by some countries. Casein is produced from skim milk. It takes about the same amount of skim milk to produce a pound of casein as it does to make 3 pounds of nonfat dry milk. The current price of imported food grade casein is \$1.25 per pound. Three pounds of nonfat dry milk are worth \$2.38 on today's U.S. market.

The case is made that casein is essential for its unique functional properties. There are uses where casein is essential. USDA reports, however, that with almost half the imports, this is not the case. The unique functional property in these instances is the subsidy induced price which allows the product to be dumped onto this market displacing U.S. products and increasing Government cost.

The increased Government cost occurs as casein displaces U.S. milk solids-not-fat in products such as animal feeds, imitation cheese, coffee whiteners, and other foods. The displaced solids must be shifted to other uses, such as nonfat dry milk, which is sold to CCC under the price support program. Chart 1 on the last page shows the relationship between casein imports and CCC purchases of nonfat dry milk. In 1984, during the Milk Diversion Program, and in 1986, as the Dairy Termination Program was implemented, CCC purchases of nonfat dry milk fell as milk production was curtailed. Rising casein imports, however, maintained those purchases at relatively high levels and represented a growing percentage of purchases.

A 1986 study of USDA estimated that a Section 22 quota equal to 50 percent of average casein imports over the past 5 years, about 89 million pounds, would reduce Government costs under the Dairy Price Support Program by \$84 million to \$300 million a year. That looks like a pretty wide gap there, so there's a lot of room in there.

Legislation has been introduced in the House by Congressman Byron Dorgan of North Dakota, and in the Senate by Senator Tom Daschle of South Dakota, directing imposition of such a quota along with a licensing system that would give a priority for available casein supplies to those uses where there is no substitute for casein, or where substitutes other than domestic milk solids would be used. This would

allow demand in these two categories to be met. It would also concentrate the relief where it is needed, in those areas where casein displaces domestic milk solids.

This Commission has an opportunity to help maintain the basic strength of the price support program and improve farm income by recommending immediate action limiting these imports.

World prices for dairy products do not reflect their value in the country of origin. World markets are characterized by the use of export subsidies, state trading monopolies and other devices to assist export of a country's products. USDA currently reports the world market price for butter in the range of \$.3450 to \$.50 per pound, Cheddar cheese at \$.4075 to \$.5450 per pound, and nonfat dry milk at \$.3550 to \$.38. Converting these prices to a farm value for milk using the yield processing cost factors CCC uses to set price support program purchase prices gives a farm value in the range of \$.350 to \$.40 per hundredweight.

You hear a lot of talk about, you know, just doing away with everything and going to the world price, and you look at \$.350 to \$.40 a hundredweight, I don't think there's anyone in this room that can produce milk for \$.350 to \$.40 a hundredweight, unless everything comes back to reality. You're going to have to get the pickup down from—If you get that Ford diesel pickup list priced in the \$20,000's, you're going to have to get that back down in the \$6,000 range or \$3,000 range. Your tractor is going to have to drop down. When all of this crashes, you're going to have a whole lot of homes going to be thrown back at somebody. You're going to have everybody else—

Bill was talking about dairymen throwing the keys at the bank because they couldn't meet their cash flow. If you can't meet your cash flow at \$12 or \$13 milk, you darned sure aren't going to meet it at \$.350 or \$.40 milk. When you're talking about world market prices and surviving, that's a fantasy world.

With the world market used for surplus disposal, it is essential the United States maintain its ability to control imports. U.S. trade negotiators have already announced that Section 22 import limits are on the negotiating table as part of the Uruguay Round of multilateral trade negotiations. While we have been told these limitations will not be surrendered easily, we recall the results of the Tokyo Round in 1979, when the U.S. agreed to the doubling of cheese quotas in the hope of improving market access for grains, beef, and other commodities.

Such actions are costly. A USDA study in 1974 estimated that farm milk prices in the United States were reduced by 9 cents per hundredweight for every 500 million pounds milk equivalent of imports. Updating that work to reflect changes in price levels, the equivalent price reduction in 1986 would have been 19 cents per hundredweight.

The import expansion agreed to as part of the Tokyo Round of trade talks increased cheese quotas by some 122 million pounds. Based on the updating of the USDA market impact estimates, this would reduce U.S. dairy farm income some \$270 million at 1986 marketing rates.

Section 22 provides the basis for effective price support operation by preventing interference from excessive imports. Much of the discussion today about the need to eliminate import controls is not, in the final analysis, an international trade debate. Scrapping Section 22 would be the first step toward elimination of an effective Dairy Price Support Program. That needs to be recognized, and the Commission, in its recommendations, must emphasize the need to maintain and use Section 22 as a basic part of U.S. dairy and agricultural policy.

Once again, I thank you for letting me appear before you today and for your attention.

Mr. Rutherford: Thank you, Lee. Are there questions? Mike Horner.

Mr. Horner: Does your organization have a position on whether that 5 billion pound trigger mechanism figure should be higher? Have you discussed that in your organization?

Mr. Wolf: Well, the 5 billion pounds, I guess, is probably—I would say there's several of us here on National Milk, and that is probably a National Milk figure. And that is also—it's a projected figure. And whether the Secretary of Agriculture is going to make it or the top man—And so far as the 5 billion pounds, that figure is what they feel like is for the domestic needs.

If domestic needs increase, probably the 5 billion pounds could increase. But if we can just put a cap on the casein, there's enough of that stuff comes in uncontrolled to where we wouldn't have to worry about the 5 billion pound figure. We wouldn't have to take a 50-cent price cut, because we would be under it.

Mr. Rutherford: Gerald Aycock.

Mr. Aycock: I'd like to ask each of you if you have any particular supply management program in mind in your recommendation?

Mr. Bugg: We recently had our corporate board meeting in Washington D.C. At that time we were pushing a two-tier pricing system. And I said we were up there sowing a seed, and we hope to harvest it next year, realizing that with the legislation we wouldn't get anything this year.

A two-tier pricing system, I think there could be many ways to work it. I don't have all the details. One of the things that they said, "Well, it's got to be voluntary." Well, it would be voluntary. You could produce at the second price if you thought you could make any money at it. I mean, that's your option. It could be regionalized. We hear about this getting together in a regionalization. It could be regionalized. I mean, if we got a 10 percent surplus—I would rather see it across the board personally, but it could be 8 percent in one region, 12 percent in another, if some other factors come into it.

So I personally would like to see a two-tiered pricing system worked out. I think it would be very economical for the Government's part of it, and that's an essential part. We realize we've got to stay under budget. None of us likes to pay taxes. I said this morning in Oklahoma—They said, "There's

nothing anymore sure than death and taxes, and now that Oral Roberts can raise you from the dead, only taxes are for sure."

Mr. Rutherford: Do the other two gentlemen want to comment?

Mr. Thornton: About the only thing I can add to that is that I do favor a two-tier pricing system for two or three reasons. One is, I think our co-op favors this two-tier pricing system for the simplicity of the administration of it. It's so simple to administer where we get complex deals with Dairy Termination and Conversion Program. And I think whatever supply management system that you have, you're going to have to have some kind of a quota or base system, whatever you want to call it, because you have to have a marketing system before you can have a supply management.

And I think this has been one of the big holdups in the past. is the reason we couldn't have it. But hopefully some day we'll get it worked out and have a two-tier or something.

Mr. Rutherford: Are there any other comments?

Mr. Wolf: Since I'm an old southern region base. Bill mentioned we could develop something regionalized. And being on National Milk, I guess one of the problems is when you come to a regional issue. On our southern region, where we put in our base plan years ago, we didn't all come in the same. We come in kind of on a regional area, sort of a regionalization. I guess the two-tier price, something that would trigger in and out—if you needed it, it would trigger in; if you didn't need it, if your purchases were down—and you could project the years you needed it and the years you didn't, you would never get a system to where it would have more value than the farms.

I don't like these high price bases that get more value than the farm. I would rather us come up with something that would trigger in when you needed it, and when you didn't need it, it would just lay on the shelf to where it didn't get that value. You know, a lot of them get the value where it's worth more than the farm. And I think that's what we need.

Mr. Rutherford: Thank you. Jack Laurie.

Mr. Laurie: I think a couple of you suggested that we were perhaps approaching a balanced position in the marketplace from the fact that we're questioning whether 5 or 6 billion is the right number. But as I understand you, you're suggesting that this be an emergency-type program that would kick in if we went into a situation like we had in the early 1980's?

Mr. Wolf: Don't misunderstand me. We need the mechanism in place to work if we see down the road where it will trigger before you have production problems, before the Government costs get so high, so it's in place to trigger, not first work on the legislation.

Mr. Laurie: That's my point. You're talking about an emergency standby program which would be a part of the total program.

Mr. Wolf: Which would be a part of and be in place to where whenever you see it coming you can cut it off before it gets out of hand.

Mr. Laurie: My other comment is: One of you suggested that we needed to address the make allowance issue at this point in time. I think I heard you all say that we're approaching some stability at this point in time between supply and demand. If that's the case, and if the Termination Program was effective, an increase in the make allowance is not too much different from increasing the support price, which is counterproductive to what you've just been saying.

Mr. Bugg: I'm not too sure increasing the support price is counterproductive, and we're not saying that. I'm not knowledgeable about all those facts and figures that I gave you, but on the make allowance, what I was stating was that it was put into the bill and it hadn't been used, I think, since 1979, was the last time that that portion of it had been eliminated. As I said, I'm not as knowledgeable about this thing like some other things I can give you an opinion on more so than probably the make allowance.

Mr. Laurie: My point is: If you increase the make allowance, you're putting more money into the supply of money that's available to purchase milk, consequently, you're going to push production up; is that right?

Mr. Wolf: Potential, yes.

Mr. Rutherford: Irvin Elkin.

Mr. Elkin: Bill Thornton, you made a statement on promotion. Your testimony points out that promotion has worked in getting everybody involved. You didn't touch on the problems within the promotion family, so to speak. Do you see a lot of problems developing in duplication of administration by volume advertising?

Mr. Thornton: Maybe I stayed away from that purposely, Irvin.

Mr. Elkin: I thought so.

Mr. Thornton: Yes, I'll have to answer affirmatively to that. I do see problems that we have right now. I see a waste of dairy farmer money in duplication of programs, of personnel, of research and all through the program of promotion, nutrition education, nutrition research, product process research and development. There's duplications all the way through, and there is turf protecting among directors on both the National Dairy Board, United Dairy Industry Association, that they want to—they're looking at, "Where am I going to be when this thing is set and we merge this thing together."

There's turf protecting among personnel, staffs, asking the same questions, and I don't have a position in this of where I'm going to be. They're happy where they're at. They'd like to keep it like it is, but I feel that the dairy farmer sooner or later is going to force this thing to be merged. How and when, I don't know. But I think that the dairy farmer will force a merger between United Dairy Industry and the National Dairy Board to where we will quit the duplication of programs and the wasting of the dairy farmers' money.

Mr. Rutherford: Gentlemen, we want to thank you very much for taking time out of your busy schedules to appear. I would like to just comment very briefly on the milk promotion aspect. The Commission has not been directly charged to deal with issues of promotion, but I think there may be an

opportunity for us to make some important comments and references in our conclusion that, hopefully, will help deal with the matter.

Mr. Bugg: I sure hope you can.

Mr. Rutherford: Gentlemen, we thank you very much for your testimony. I'd like to next call J. Jene Mungie, a dairy farmer from Oklahoma, to the witness table.

Mr. Mungie: Good morning. I'm Jene Mungie from Tulsa, Oklahoma. I want to thank you for the opportunity to appear before you today, and I want to thank the panel members for their service to us and to our industry. These hearings, as I understand, are to get the considered opinion of farmers. I say farmers, all over the Nation on a long range plan. And I can't understand why we have to start from scratch—maybe that should be why the economists have to start from scratch, every time we want to start new farm legislation. We should learn from those mistakes we've made in the past.

The other day I talked to a consumer and he—just to put this down in just a few words what we were talking about—and he said, "We want everything for the dairy farmer that we wish for ourselves, such as an equitable return for his labor. We completely depend on the small segment of our population who work hard in all kinds of weather producing food for the rest of us." And I wish more of the public understood and held that same feeling.

Now, there are two essential things on the Dairy Program that I want to point out. The first one, all dairy programs must be compatible—compatible with other agricultural commodity programs. My dairy business today is in the black, not because of the price of milk, but the low price of grain that I'm paying the grain farmer.

And second, a Dairy Program must be economically responsible for the benefit of both the public and for the dairy farmer. The last two programs have been self-help programs, and the money's come out of our pocket. Unfortunately, the general public doesn't realize this. They don't have the self-help image that we have of ourselves.

In my opinion, the price support is essential until some kind of an effective program is designed to protect the farmer's investment and his income. The question is: Do our elected officials want the voters to pay for the cost of producing milk and food products? We have to fight our own State Department every time on the casein imports and other imported dairy products that are being so heavily subsidized by foreign countries—and we have created co-ops across this country to work for us. Now it's time that they started paying back to the dairymen the money that they have invested in it. We also created a Farm Credit Association Co-op across this country, but the administration of it forgot the purpose for which it was intended, to be of service to the farmers.

Now just stop and think. You've been all over the country, gentlemen. Where are the grass roots program ideas that AMPI got from us? The same applies for the Farmers Union, the Farm Bureau, and other farm organizations that we built. Is it just lip service that we get from the top down? These organizations must once again meet—become responsive to

the needs of their founders and the current membership, and we must hire the best personnel we can get to fight for us.

As you touched on it a while ago, dairy farmers are paying out of our pockets over \$200 million to promote and research dairy products. And I say it again, somebody's got to be frugal with that money, because, you know, we get that milk just a squirt at a time, and a little squirt sometimes. Something that bugs me, and I think it ought to bug everybody else, we're spending all this money on advertisement, and we ought to give the boys and girls of this country and the general public a better glass of milk with more protein than solids in it. Now, when are we going to get started? Here we're spending all this money on advertising and not giving them a product. We're not trying to improve it. We're going to have to start that fight, and we ought to start it right now.

We have been told by the co-ops that they can't pay us anymore for our better quality of milk because of the processors. But when there is an effort made to assure that the public gets a better glass of milk, the co-ops take the side of the processors. Major processors are long, big, large conglomerates that are very ruthless in their dealings in order to make the bottom line black. Co-op leadership must be responsive to the representative of their members. Research in California has proven that the more an individual knows about a balanced diet, the more dairy products he consumes, and we've only scratched the surface on research and promotion to let the public know the truth.

A few years ago when I was in the processing business, I went to court with the Federal Milk Order. I did this not to wreck the order, but to keep it in line with the intent of the act to serve the people.

Yes, we need a Federal Milk Order to serve the consumer and the dairymen alike. Without the order, we producers would be divided against ourselves, making lower prices for most of us and would create an opportunity for dishonesty to develop in the ranks of the processors. We have to be careful not to wreck the present system. A little improvement and fine tuning is needed, but caution should be used so that a simple repair doesn't turn into a major overhaul and destroy the whole system. And there's a lot of them out there would like to see it destroyed.

My daughter and her husband sold their restaurant several years ago, and they found out that the good will value of their business was worth more than the equipment. Doesn't it make good sense, good business sense or good cow sense or just plain old horse sense, to have a little good will built into the value of our quotas, our production system averages? And if it was possible, this would be set up on a 5-year or longer basis for full value, and that value must have a ceiling.

Nobody can tell us for sure what kind of new programs will work. But one thing I'll tell you for sure, you can't leave it to the discretion of the Secretary of Agriculture. It will not be a dairyman's program. It will be administration's program. All parties concerned should know by now that the farmers are not ready to turn the farm's responsibility of farm policy over to the administration.

Now, we've heard a lot about free market, and don't kid ourselves. A free market doctrine in an economy in which there are no free traders in the United States or anywhere else in the world won't work. Remember that the debt ratio—the debt-to-asset ratio for dairy operations—is one of the highest among farmers in our Nation. We must have stability for our raw products to compete with foreign subsidies. Gentlemen, I feel that we are a Nation of surplus food, and yet, we don't show the wisdom to handle this great blessing for the benefit of all.

Thank you for the opportunity.

Mr. Rutherford: Thank you Jene. That was a very well thought-out and sincere statement. Let's ask some questions. Jim Holte.

Mr. Holte: I'm going to assume that you mentioned quota in here once or twice, I believe. I assume that you have a preference toward some sort of supply management along with the price support system. Is that true?

Mr. Mungle: I don't have any preference, because I really don't know how they work. Now, they told us at the beginning of this last program that we don't want to talk about quotas or anything not having value or anything like that. But in essence, what kind of program do we have today? Then they come out and say you bid on it. That puts you in the gambling business and gives you 30 days for a lifetime's work to make up your mind.

And when you say we live in a controlled economy, yes, we do. So I like to think I'm independent. I think we all do that, but we can't live in this economy without having all these controls, it looks like. Now, let's fight to take them off, but let's take them off of everything at the same time. Give us a fair chance. And I don't think that's an answer to your question, because I don't have that answer, and I don't have a preference. But I do think that supply management is going to have to come into it somewhere to help us control. But at the same time, I think we ought to have this good will value built into it.

Mr. Rutherford: Other questions or comments? Pearson Knolle.

Mr. Knolle: Jene, you said that you don't want to leave anything to the discretion of the Secretary of Agriculture. Are you proposing some kind of farm committee be used?

Mr. Mungle: I trust you gentlemen a lot more than I trust the Secretary of Agriculture or any other administration because—Does that answer your question good enough without going into depth?

Mr. Knolle: I mean, do you want some written formula dictating automatic change when the prices change?

Mr. Mungle: I think a dairy board similar to yours—Your decision would be a far greater decision, a fairer decision than administered by the Department of Agriculture. Now you take the first part of this, Congress passed it, it consisted of 2 1/4 pages in the Congressional Record. By the time the Secretary of Agriculture and his cohorts kept writing rules and regulations into it, it consisted of 117 pages.

Now, I don't know what the last one has got built into it, but was it fair to the guy who got \$5 and the ones who got \$21?

You know, you have neighbors. I have too, and I'm trying to be fair. I want to see something fair worked out so we can make some plans. Of course, I may not be around to see them, but I think we're entitled. We ought to be smart enough to try to work out some plans to be economically feasible for our program to work some way. And I'm not depending on this Board. The pattern may be too much, because it's the first start, you realize, that we've ever had. You're to have the voice. You as individuals are going to have to exert that danged voice, and you're speaking for me and a lot of hard working old boys out there that know what it is—gets our hands when the lines are down and what it is to get their hands all swollen after pouring out the milk, and we don't have anyway to pay for it back in those days. You didn't get a percentage of it.

Mr. Rutherford: Are there any other questions or comments? If not, Jene, I thank you very much.

I'd like to ask Lee Richards of Harlingen, Texas to come forward please.

Mr. Richards: I would like to add my compliments to those from each speaker who has appeared here before me and compliment your patience and your persistence in traveling over the country and listening to the various opinions relative to national dairy policy.

My name is Lee Richards. I am President of the Hygeia Dairy Company, a small independent dairy company in south Texas. I am in support of the current farm program as it is being administered. Any other provisions in the current law not currently being enforced should be removed in order to avoid the temptation of activating them and assuring the dairy farmer that the rules will not continually be changed depending on the unpredictable whims of politics. No one person or group of people are good enough to predict and manage economic forces, anymore than we can affect the formation, direction, and force of a hurricane, but if we could, I'm sure we would be wise to wait until we could predict the full result of our actions.

The current system of reducing the support price 50 cents per hundredweight when the surplus is increasing, and increasing the price 50 cents per hundredweight when the surplus is decreasing, will provide the price floor for the dairy farmer and reduce speculation as to what Government program will be initiated next. This will serve the dairy farmer and consumer well. Diversion programs and, whole herd buyout programs and supply management programs substitute politics, bureaucratic inefficiency, and unscientific economic assumptions for the natural forces of economic supply and demand.

The Federal Marketing Order System needs to be revised to recognize the different markets for milk: The Class I and II markets, and the Class III market. Producers, processors, and cooperatives participate in pools and receive the benefits of higher prices provided by Class I milk and then refuse to deliver when required. Unnecessary milk is pooled on markets by liberal qualification programs, depressing the price and supply of milk in deficit markets. Unnecessary cheese operations are operated in deficit areas strictly for artificial pooling purposes, rather than economical opera-

tions. Only milk actually delivered to the market during the deficit periods should be pooled on the market during the surplus period.

Producer cooperatives claim liberal qualification programs are necessary in order to pay for the balancing functions which they obviously provide. Then they add to that premiums and penalties to subsidize their inefficiency and discriminatory practices against other cooperatives, handlers, independent producers and consumers. I am not against cooperatives as an effective way of doing business, as I am currently vice president of a cooperative that represents the largest dairy brand in the United States and Canada.

It is the policy of the Department of Agriculture to develop regulations which favor the organization and success of cooperatives. It appears to me that the best policy of any business is to promote the welfare of the consumer. The dairy business or political organization which is representing the interest of their consumers or customers will most likely do those things which will be most economically beneficial to the farmer, the processor, and the retailer. The USDA and the farm cooperative need to realize that the consumer is their customer, not the farmers. The farmers are the owners of the cooperative and the processor, and consumers are your customers. Co-ops act like they don't know this.

Import/Export: Import quotas on dairy products should be gradually increased until they are ultimately eliminated, and an aggressive export program should be implemented. A tariff should be placed on imports that reflect the cost of taxes paid by our locally produced products, and a similar reduction in the selling cost of exports should be refunded to the exporter so that they can be competitive in the international markets. Surveys should be run on imported products in their local markets and in international markets to confirm that products are not being subsidized or dumped on our markets or other international markets. This service should be paid for by the local producers and the importers. We do not serve our customers by burdening them with our inefficiency, and we weaken our character and ability to compete by erecting artificial mechanisms to insure our own survival at the expense of the taxpayer and our customers.

Flexible Marketing Program: We believe that we need to develop programs that will promote the use of dairy products, and we need the flexibility to develop products that contain dairy foods that are more attractive to our consumers. However, I do agree also that products should not be called ice cream or milk or butter or cheese unless they meet the specifications required that are necessary to insure the consumer that she is getting exactly what she thinks she is buying.

Those products which are imitation should develop fanciful names that do not relate to the words butter, cheese, milk, or ice cream. I agree that in the minds of the consumer also that there are other manufactured items which the consumer perceives to have certain natural ingredients that manufacturers and restaurateurs are attempting to cheapen in order to give the consumer the impression that they are getting something that they are not. I believe that the consumer is convinced that anything called pizza, for instance, has a natural cheese on it, and therefore, if somebody wants to

put some kind of imitation cheese or meat or vegetable on a pizza, then they should call it something else. The vegetable oil people did a good job with margarine without calling it imitation butter. We would not accept a competitor calling their product "Imitation Hygeia."

I am opposed to the proposed establishment of solid nonfat levels in fluid milk that are above the level normally available in fluid milk. If the consumer wanted such a product, it is currently available in many markets, but without general success. If it were really beneficial, all handlers would be manufacturing and marketing it without legal requirements.

This is not my typed message, but I'm also in favor of the promotional program which has been mentioned several times here. I think it's something that was long overdue. I think it's basically effective. It's very difficult to measure the value of advertising and promotion on the basis of one program. We look at advertising as a long-term investment, and the effects of advertising accumulate over numerous years and increase the value of the property. I think this is a service to the consumer, and it indicates that the dairy farmers and many cooperatives are beginning to realize the value of consumers and how they affect their product and the necessity to realize that these are the people we serve and that we've got to do a job for them.

I have one problem with the advertising promotional program, and as yet it's not surfaced. The Milk Industry Foundation, against my wishes, approved the use of the funds from dairy farmers in branded advertising. I think this is wrong. I think the brands ought to advertise their own products. I think there is too much opportunity for collusion, misrepresentation, and discrimination if the dairymen's money is going to go to advertise these branded products. If the processor is going to spend their money on advertising, they ought to spend it on their own.

We do believe that Government regulation is necessary but should be limited to as little as possible. A fluctuating support price is good as long as it only limits exaggerated fluctuations in the market and doesn't interfere with long-term market forces. We support the Federal Order System to assure the dairy farmer and processor fair treatment with the same limitations. Freedom and justice require a delicate balance with the courage and determination not to seek unfair advantage through Government regulation.

Mr. Rutherford: Thank you, Mr. Richards. Just for record, could you give us the name of the cooperative of which you are vice-president.

Mr. Richards: Quality Checked Dairy Products Association.

Mr. Rutherford: Quality Checked Dairy Products Association. Thank you. Are there any questions? George Mertens.

Mr. Mertens: I have a problem with your second to last paragraph, because we have higher standards for solid nonfat products out in California. I agree, when you say that the consumer doesn't want it, but maybe they don't even know what they're not getting. For 20 years out there we've heard the same argument. But as a result of our higher standards, advertising and everything else, we have a higher consumption of dairy products per capita in the state of California. If those per capita consumptions were spread

out over the United States, we'd be in much better shape. That's why I take issue with that second to the last paragraph.

Mr. Richards: We get back to my basic philosophy, and that is that regulations requiring somethings that are more than natural are going to interfere with the consumption of milk in some areas and maybe make it not taste quite as good. I think there are a lot of other factors that influence the high consumption of dairy products in California, for instance, and I think income is probably one of those main factors.

And here we get into the idea of somebody suggested we hire an economist to predict what's going to happen. And I have just about as much confidence in an economist as a previous gentleman had. I don't think we could determine what the effect is going to be nationwide relative to that.

Mr. Mertens: Well, that was my point. We have proven it basically. As far as the income, everything is relative but there, in fact, the price of milk is cheaper than in most parts of the United States.

Mr. Richards: Maybe that's why it's sold more.

Mr. Mertens: It's cheaper in Wisconsin and they don't sell anymore than we do.

Mr. Richards: In other words, you've got a higher income and you've got a cheaper price on milk, so maybe that's a bigger factor than whether it's—

Mr. Mertens: Consumption, I think, is fairly inelastic. That can be proved by the fact that the price of milk in Florida is much different than the price in Wisconsin, and the consumption is basically the same.

Mr. Rutherford: One thing I'd like to clarify, the economists are taking a beating, and we're not going to make a judgment on who's right or wrong. Jim Holte.

Mr. Holte: I had a question concerning the import and export portion of your testimony. You indicate that you support reducing the import quotas of dairy products gradually over a period of time. Later you mentioned taking surveys relating to an imported product's price in its own market as well as the international market. Isn't that a reflection of our current quotas in those products now, the fact that they are being subsidized so we have quotas?

Mr. Richards: I think you're right. I think this is going to have to be a very long-term project. I think we're headed in a direction of deregulation of the industry worldwide. We're in international markets that in probably 10 years, I think, as well as most of us can imagine—And I think that there's an understanding now worldwide that something had to be done. I think it's going to be a gradual process. I think it's going to be a long-term process, and if we regulate it properly, it can be an orderly process. Otherwise, I have a real concern as to what's going to happen, and I'm not just talking about dairy products now. I'm talking about every other industry in the world.

Mr. Rutherford: Bob Foster.

Mr. Foster: My question pertains to the current price support program. If I understood you correctly, you indicate that

you're in favor of the 50-cent drops. I assume that's determined by current legislation of a 5 billion pound trigger point that the Secretary has to estimate.

Do you feel comfortable with the Secretary making this estimate? Do you feel that the 50-cent drops or raises are as reflective as an economic formula would be.

Mr. Richards: I don't believe anybody can calculate an economic formula that would be representative of the marketplace. I think it's just too complicated. There are too many factors involved that most people don't understand. I don't know that the 5 billion pound figure is right. That's why I didn't use it. I think it could be 7; it could be 4.

I think more important is the direction of the surplus. If the surplus is decreasing, the price should be gradually increased. If the surplus is increasing, then the price should be gradually decreased. I'm not sure 50-cent segments are right. I'm not sure the dates of doing these things are appropriate. It might be it should be done less frequently or more frequently. I think it's a good program, and I think it could be fine tuned. And I think formulas are made by politicians, and I'd rather have the Secretary of Agriculture make these than I would an elected official.

Mr. Rutherford: Bob McSparran.

Mr. McSparran: My question concerns the 50-cent price cuts or adjustments. As we heard in previous testimony here and elsewhere, when the price does drop, the first thing that happens is that production momentarily goes up.

Do you think this is the only factor which should be considered; taking a price cut in order to get the milk production in line? Do you think it acts fast enough? If the price drops enough, I realize, production will go down over a period of time. But do you think the reaction is fast enough?

Mr. Richards: I think that we have had so many programs lately that the dairy farmers are smarter than the politicians, and they've prepared themselves for the Diversion Program; they've prepared themselves for the whole herd buyout program, and currently they're preparing themselves for a management supply program.

I don't know what the effect of that is. I think probably it's increasing production. I do agree that a decrease in the price momentarily increases the supply of milk. But that can also depend on a lot of other factors, too. We don't increase or decrease the supply of milk in a month. Now, we can a little bit by increasing feed or things like that, but it takes a long time. And I think if the dairy farmer knows that if supply goes up I'm going to get a decrease; if supply goes down, I'm going to get an increase; he's going to respond to the long-term market instead of the immediate situation. And therefore, I don't think we'll see the wide fluctuation, except maybe during times of catastrophic situations.

Mr. Rutherford: Mr. Richards, we thank you very much for taking the time to testify. We sincerely appreciate it. Thank you, sir.

I'd like to ask Timothy Bobo, a dairy farmer from Fredricksburg, Texas, to come forward.

Mr. Bobo: I want to thank you gentlemen for letting me talk to you. There's going to be at least two good things about

my speech. There's no paperwork involved, and it's going to be short. My name is Timothy Bobo. I operate a 100-cow dairy in central Texas. I've been operating this dairy for the past 2 1/2 years, and I have already, as you can imagine, experienced a number of difficulties, not the least of which has been the price of milk.

I think that whatever comments that I might make today, it should be particularly noted in light of the fact that my concern primarily in the dairy industry is for the long run. I'm not yet 30-years-old, and yet I plan to produce milk the rest of my productive life if I can survive economically. The issues facing this Commission are far too numerous for me to even touch upon all of them. Instead, I will comment on only a few that I feel to be the most important.

First, I would suggest that we let the current legislation run as it is for now. I don't think, however, that the current plan will be a long-term solution. I think this current relief that we're feeling from the buyout program should be used as time to work out a more permanent plan. While it is not, I realize, under the control of the Secretary or this Commission, I do want to say that I think that the revisions in tax laws that have taken place will do agriculture far more good than they will harm by keeping out unnecessary investment dollars that would not be in the dairy business if it were not for the added tax breaks that they were seeking. Whatever money we're going to lose or have to pay in additional taxes, I think we'll gain in the longer run by these incentives from outside money being pumped into the dairy business.

There have been some discussions of advertising, and I would like to say that I think we should continue, and perhaps increase the advertising dollars that we're spending. I don't think it would be out of the question for a mandatory 15-cent deduction to be taken from our hundredweight of milk. It might also be a provision for any of those who would like to contribute more than that. Perhaps some of us would like to pay 20 cents, but have a mandatory 15 cents.

We must learn, I think, to give consumers what they want and not try to tell them what they want. It is not our place to convince consumers of anything. It is our place to give them what they want. This is a lesson that Coors Beer and the Coca Cola Company learned a long time ago. While we have a good wholesome product and we don't need to be ashamed of it, we need to open new markets for people that want different products. And research should be supported into the production of those products.

We also, I believe, should tighten quality standards which would include increasing minimum solid standards, which has been shown to increase consumption. Also, we should tighten bacteria standards as well.

As far as diversion and buyout programs go, if at the conclusion of this Commission's tenure, a diversion or buyout program, as is the possibility under the current plan—I think that any of these diversion or buyout programs must be directed at young stock. That will cost the producers and the Government less, and it will reduce future production more than culling aged cattle. Killing a 6-year old cow accomplishes very little. Killing a heifer calf accomplishes a great

If a base program is initiated, I'm not saying whether it should or should not be, but if it is, it must be capitalized. A dairyman without the ability to buy a right to produce more milk finds himself in a very bad position due to his inability to control his other costs. He may need to increase his production. Unless he can buy that right when he wants it, he's going to be in trouble.

I would close by just leaving a few of my general thoughts on the direction of the dairy industry. The trend towards fewer and larger dairies has been accelerated by recent Government programs and the general economy in which we find ourselves. I don't think that any Government program should encourage or discourage any size, location, or type of dairy enterprise intentionally. Economics alone should govern where, when, and how dairy enterprises function.

We must not hold back new technologies that could increase our efficiency, nor must any new dairy legislation favor social over economic issues. The dairy industry must be allowed to move forward by those willing to move it. I would also warn that we must, while working on farm milk prices, not lose sight of the fact that at some point price will adversely affect commercial disappearance. We must keep our product priced competitively with nondairy alternatives. And that's all I have to say.

Mr. Rutherford: Thank you, Tim.

Are there any questions? Mr. Gerald Aycock.

Mr. Aycock: In reference to the possibility of any future program similar to the Dairy Termination Program, dealing entirely with young livestock, do you have any plan in mind?

Mr. Bobo: I've heard and read of a number of them, and I think the younger the better would be one possibility. I have not sat down myself and run through the figures of what we're actually spending now, but I've often wondered what it would cost for the Government to have an open bid on heifer calves, anyone who wants to sell heifer calves and have them either exported or slaughtered. There are a number of programs, and I'm sure you have seen a number of them printed and spoken about. And I'm not here to purport any particular one, but I, just in general, feel that the programs removing aged cattle, it puts a burden on the beef industry, they feel. It costs the Government a lot to buy a grown cow whose productive life is, perhaps, very limited.

Especially in diversion type programs, you find the long-term productive capacity of the dairy industry is not even touched. In the buyout, of course, young stock was slaughtered along with the aged cattle. But a young stock slaughtering program of whatever kind that it might be, I feel that it would, while not have immediate effect—one heifer killed would cost the Government—if we just killed it, would cost the Government very little. The beef people couldn't say anything whether they were justified or not. It would essentially not affect the dairymen at all at the immediate time, and I don't know what an average cow's lifetime production in the United States is, but it's certainly more than a 4-year-old cow's. And that's the basic reason that I think young stock ought to be looked at when some type of that program is entered into.

Mr. Rutherford: Jim Holte.

Mr. Holte: I had a question that I'd like to ask you about the kind of farm that you have and the kind of farms that you see in your area. You seem to be a very energetic and positive type of farmer. What kind of feeling do you have for farm size and farm structure relating to the so-called concept of county farms? You indicated that you felt economics should drive the structure of farming. Can you give me a feeling of what you see now and what you see in the future?

Mr. Bobo: I see a dairy industry that's continuing to have fewer and larger farms. I'm not advocating it. That's just what I see. I'd be a happy man to sell milk for \$18 and milk 50 cows with my wife and kids, but I don't think that's where it's going. And I'd like to produce milk. I enjoy the dairy business, and to stay in it I think I'm going to have to get bigger. I don't see any other alternative, and I'm not advocating fewer and larger farms. I just don't think any of us can control it. It's a trend. It's an economic trend, and to try to stop it through legislation would waste everybody's time and money. That's my point.

Mr. Rutherford: One more question. Irvin Elkin.

Mr. Elkin: Yes. Timothy, I find your testimony very interesting because you typify the young farmer that we're supposed to be listening to. Now you laid out some things like flavor promotion, better quality, I'm sure that's important. You said that a base program, if initiated, should be capitalized in one way or another. You mentioned separating social factors from economic factors when looking ahead to future programs, and that no Government program should favor one side structure over another. I certainly agree with you.

You said you planned to milk cows the rest of your life if prices are such that you can remain on the farm. You also voiced a concern that if prices to consumers get too high we'll lose market shares. All of these are good points. But, what do you see in the future of the industry, perhaps 40-50 years from now? What do you look for? In my area, Wisconsin, I find tragic disillusionment with all agriculture, but primarily dairy. Many young people your age are not going into dairying because they see too much instability and uncertainty.

Do you want more structured or regulated programs for dairy, or would you favor less regulation? I'm really interested in what you would like to see in the future.

Mr. Bobo: Well, I'm kind of a hard case, because—I'm silly in a way, because I'm going to be in the dairy business as long as I can scratch a living out of it. That's just kind of a philosophical summary that I love the dairy business. But I'm also very much a realist, and I see, as I told Mr. Holte, a continued trend towards fewer and larger farms. And I'm not so sure we're heading for more regulation. I think we may be headed for less. And I think that will fuel larger and fewer farms.

I don't expect the price of milk to increase like everything else does. I expect it to remain stable, and, at some point, depending on the technology we have, it may go down. So that's the view with which I move forward. I move forward to expecting a relatively low milk price, expecting to be able to produce milk cheap. I'm not looking for milk to be \$20, \$23

at some point in the future 10 years or 15 years from now. I'm expecting it may be selling for the same price 10 or 15 years from now. And to adopt the technologies, run the size of farm where I can maintain a net over feed that will allow me to carry my capital costs, whatever that size may be. If I have to milk 2,000 cows, if I can obtain the credit and if I can meet the cash flow, that's what I'll do. I'm not advocating. I'm just a pragmatist. I'm just trying to do what I have to do to stay alive. And that's my philosophy.

Mr. Rutherford: Tim, thank you very much. Your kind of testimony is extremely helpful, because it comes from the heart. I want to thank you.

Mr. Bobo: Thank you.

Mr. Rutherford: I'd like to ask Kenneth Klement, a dairy farmer from Gainesville, Texas to come forward.

Mr. Klement: This might be the shortest one you've had all day. Gentlemen, I appreciate having the opportunity to come before you. I take it as a privilege that I live in a country where we can do this. I am Kenneth Klement from Gainesville, Texas. And awhile ago Mr. Holte asked a gentleman ahead of me what he considered a family size farm, and I've got six children, four sons and two daughters. The four sons are out of school. The oldest son is 25 and the youngest son is 18. They're all on the dairy with me. We have 1,200 acres. We milk about 150 cows. That's a family farm, because a family runs it. I don't think we can define a family farm in acres and size. It's to the capacity of the individuals who run it. I just wanted to comment on that before I forgot what I was going to say.

One thing that I've—What I'd like to really talk about down here, and I've thought about this for about 2 weeks now, and I wrote the speech and I didn't bring it with me. I said, "To heck with it." I've been riding tractors and combines, and you know how many times it goes around and around, and I don't want a quota system.

I've been milking cows since the early 1960's. I'm a third generation dairyman. My father is 70 years old, and he still owns a dairy farm. And we started out in the 1960's when the price of milk was cheap. We've overcome quite a few obstacles, and I feel more comfortable having the decision-making as close to me as I can get it. I think a lot of dairy-men do. It concerns me that an individual or group of individuals would set policy on how much supply of milk we need in this country.

We discussed a while ago 5 billion pounds or what's the number. Nobody knows. I'm more comfortable with the market as close to free as we can get it. Now, I understand there's not a free market as such. There are Government controls on most things at some degree, some place in the chain. They could kill us by—they could import wheat and drive it down the 50 cents a bushel if they wanted to, same with dairy products. We know that, but generally when you've got the type system that I've dairied under for the years since I can remember, I've had more opportunity as an individual and our industry has survived. We've had these things come up on us.

You know, we've been going broke for 20 years. We have. We've had an oversupply of milk all my life. I went back—and I keep—I'm a pack rat—I keep every magazine, and my wife gets after me, so I've been going through them the last week or so. And we've been going broke now for the last 10 years. We really have, because that's what the magazines preach. We write articles to ourselves, is really what we do. They're all farm magazines. Some editor, he went to a meeting such as this and he heard it and he writes it down and I read it. And I don't know how we can come across—modern technology is going to just eat us alive if we continue to produce at the capacity we're capable of. What's going to stop that, I don't know. We're going to be able to produce milk for \$5 a hundred here before long.

If the new technology—if they could take—And you say what if now. If they could take wheat, let's say, and let it put its own nitrogen in the ground. And they're talking of these things now. Their technology, in 5 years we're liable not to believe it. It always reminds me of a little deal I was in about 15 years ago. I was at a dairy meeting, and I was on the resolutions deal, the first time I was ever at anything like that. And there were about 30 of us sitting there. And I can't remember everything we discussed, except one individual during the day kept saying the price of milk just had to go up. And this was back—And all day that's what he kept talking about. And towards evening we had a break there, and he and I were talking. I said, "Well, how much milk do you get? What do you get per cow?" Well, he was getting less than a 35-pound average. Well, he didn't need to be at that meeting complaining about the price of milk. He needed to be home taking care of his cows. I mean, to me, I've never forgotten that. That's the one thing that stuck in my mind.

Of course, I can come here and we can talk about everything in the world. It's not going to change it today. The future, I don't think any one individual can predict it, but I think we have to run by trends. Awhile ago something was said about how something worked. What I've noticed over the years, and I've seen drafts to this effect, that as the price of milk goes down, the price of grain normally is going up, and they will cross each other. As long as the grain is going up or the milk is down, they will cross a path someplace. And it has happened twice since I've been in the dairy business. That's the market history. It's almost a predictable thing, but these things do happen. And I feel comfortable with that. I feel comfortable with the consumer having more to say about the price of the product I'm selling than I would a committee, a board, or Secretary of Agriculture. I feel more comfortable. I think our country will be stronger for it. And I'll quit there or I'll talk all day. Thank you.

Mr. Rutherford: Thank you very much. We appreciate it. Are there any questions or comments from the commissioners? If not, I don't think you can argue a lot with what you're saying.

Mr. Klement: One thing I was going to say, there's a lot of strong sentiment in this country for a quota system, and I can understand the reason behind that. But one thing I would like to ask about that is, that's a major thing, and that is really—we were under a quota system in this part of the

United States once, and I didn't like it at the time. And we got out of it. It finally ceased. But I think we ought to have a ballot mailed to every permit in the United States before something like that ever came into effect. It's beyond me that an individual wouldn't want an actual voice in it.

I understand we elect people to do our business and do these things, but that one major thing, you know, that's scary. Well, it also comes down to—I think it would make everybody concerned get their point across. You know, if the people in power say we got to have a quota system, and that ballot was coming to my dairy farm, I assure you I'd be informed. You could bet I would. Somebody would make it a point to see me and say, "Hey, we've got to have it." I think we'd have a better industry if we went to that whether it passed or not. I could live under it either way, but I would rather not have it. Thank you.

Mr. Rutherford: Thank you very much, sir. We appreciate it. Ross Wilson has asked to address the Commission and he does have a time conflict.

Mr. Wilson: Mr. Chairman, I appreciate you squeezing me into the schedule. I do need to catch a plane to Washington.

Mr. Chairman and members of the Commission, I am Ross Wilson, Government Affairs Representative for the Texas Cattle Feeders Association in Amarillo, Texas. TCFA appreciates the opportunity to tell the Commission how cattle feeders feel about future dairy policy. TCFA represents most of the cattle feeders in Texas, Oklahoma and New Mexico, an area that in 1986 marketed over 6 million head, about 26 percent of all fed cattle marketed in the United States.

TCFA is very supportive of the meetings that are taking place between the leadership of the National Cattlemen's Association and the dairy industry. It is only through joint cooperation that future dairy policy can be developed to avoid undue hardship for cattlemen. Before implementing any future farm programs, Congress should be extremely careful that a program for one commodity does not adversely affect other agricultural commodities. A brief review of recent history will reveal why cattlemen get very gun-shy when the discussion turns to dairy policy. On two recent occasions Congress implemented dairy programs that had adverse effects on the beef industry.

The first was the Dairy Diversion Program—a one-time only program as Congress explained it, to help the dairy industry resolve its problem of overproduction. The projection that up to 1 million dairy cows would come to slaughter in a 3-month period, even though actual slaughter did not reach projected levels, helped drive beef cow prices in the fall of 1983 to their lowest levels since 1978. Fed cattle prices dropped 16 percent in anticipation of heavy slaughter of dairy cows. And after the program ended, dairy producers increased production. Not a very effective program in our opinion.

Second was the Dairy Termination Program, which was an even greater disaster for cattlemen. Cattlemen tried to warn Congress of the dire effects the whole herd buyout would bring upon the beef cattle industry, but Congress didn't heed our warnings. On March 28, 1986, USDA announced that contracts had been signed with dairy producers to slaughter a little over 1 1/2 million head of dairy cows, heif-

ers and calves. And who could guess that USDA would do such a poor job of, number one: announcing the program, and number two: administering the program?

To say that the Dairy Termination Program did not hurt cattlemen is like saying that Oliver North was not involved in the Iran-Contra issue. Cattle producers lost millions of dollars in cash sales, approximately \$25 million in the first month alone. And millions more were lost in decreased inventory values. At no point since price controls were lifted by President Nixon in 1973 did prices decline so rapidly in so short a period of time.

In addition, commodity futures prices fell 550 points between March 31 and April 4, an unprecedented decline. There was nothing else in the marketplace at that time to suggest the declines would have occurred without the Dairy Termination Program.

Mr. Chairman, the cattle industry can never tolerate another such Dairy Program. The infamous Dairy Termination Program is without question the most distasteful Government farm program that cattlemen have ever faced.

At the cattlemen's expense, dairymen had a golden chance to leave the dairy industry. With much cheaper grain and lower interest rates, there is no economic justification to change the dairy provisions in the 1985 Farm Bill. If there is an attempt to change the dairy title of the Farm Bill, cattlemen will vigorously oppose it. During debate on the 1985 Farm Bill, many members of Congress indicated or promised that (a) there will not be another whole herd buyout program, and (b) that price support levels will be tied to Government purchases of surplus dairy products. Those two issues, those two criteria would determine dairy policy for the remainder of the 1985 Farm Bill. This promise, cattlemen feel, should not be broken.

Mr. Chairman, thank you again for the opportunity to present our views, and I would be happy to discuss the issue further or answer any questions.

Mr. Rutherford: Thank you, Mr. Wilson. Just to clarify one thing, while the Mercantile Exchange did fail, there are many people that became instant millionaires because of it, which could lead you to believe it's no different than the stock market. There's a lot of maneuvering going on.

Mr. Wilson: Well, there were probably some speculators and probably some producers that recognized what might have been coming and were able to cash in on that. Those would be an extremely small minority, however.

Mr. Rutherford: But an extremely powerful minority. I have one question to ask. Do you feel that possibly the better cattle prices that are being received at the present time could be in a small part a result of the era that we just went through in the past 12 months?

Mr. Wilson: Mr. Rutherford, I think that anytime you see 1.55 million cattle come to the market, whether it be dairy cows or another type of cattle and you wash that out of the market, you're probably going to see some increased prices. I think that's had a small impact. I think the inventory report that recently was released, the continuing decline of beef cow numbers, and the very tight supplies, and very current

marketing conditions that we see in the feed yards have had a much bigger impact on the positive price situation that we find ourselves in right now.

Mr. Rutherford: Just one last comment. I guess where we are in agreement is that USDA did a lousy job of implementation.

Mr. Wilson: Yes, sir.

Mr. Rutherford: Jim Holte.

Mr. Holte: I'd like to begin by saying that I agree with you that the National Cattlemen's and National Milk Producers' members certainly do need to work together and collaborate on a lot of things that they're doing. We heard some information this morning that would suggest that the problem with the price falling after the DTP started was more of a psychological and emotional one, than it was one based on fact.

We also had some information shown to us that would indicate that maybe the psychology impacted much more on the decisions of the cattlemen in selling their cull cows than it did on the dairymen selling their cows. Can you comment on anything about that? I'm saying, it seems like you did it to yourself almost as much as the dairy people did it to you.

Mr. Wilson: Mr. Holte, I didn't have an opportunity to hear what was said this morning, so it's rather difficult to comment. Psychology, as everybody here is aware of, has a tremendous amount to do with the operation of supply and demand in the free market. And cattlemen did react, obviously, to the decline in price caused by the announcement of the Dairy Termination Program. Some cattlemen did sell cattle that they had intended to move in a more orderly fashion and over a more extended period of time, but decided to move those cattle in a shorter period of time before the market completely fell out of bed, so to speak.

With the limit moves down in future prices for a number of days in a row on the Mercantile Exchange, there was no opportunity whatsoever for fed cattle producers or stocker cattle producers to take any type of price protection. The cow calf producer doesn't have the opportunity or as direct an opportunity to hedge as the fed cattle or stocker cattle producer.

What I'm saying is: I would disagree that cattlemen did to themselves or caused or were a cause of the rapid price declines associated with the announcement of the Dairy Termination Program.

Mr. Holte: But can you support the position that the dairy people caused it? When that announcement was made, I don't believe the dairy cows went to market. The price dropped from a psychological factor, and then immediately after, it dropped because those culled beef cows went to market. It wasn't the culled dairy cows that caused the fall in price.

Mr. Wilson: Prior to the Diversion Program, cattlemen had very little interest and probably little reason to be interested in dairy policy. It was not having an adverse effect on the beef cattle market. And our concern then and now is that future dairy programs will not have the adverse effect that

we saw with the Dairy Diversion Program and the Dairy Termination Program on the beef industry.

We are supportive of the policy that is in place and implemented by the 1985 Farm Bill and would like to see the Farm Bill left alone and run its course. If new proposals, which it appears that there will be, are offered by the dairy industry, new programs so to speak, the cattle industry will be willing to look at them. This is going on right now with discussions that I'm sure you've had with some of the leaders of the National Cattlemen's Association. The design of the Dairy Termination Program as it moved through Congress, and the implementation of the program was what caused the problems.

The philosophical position of the cattle industry that the support for one commodity—Government program for one commodity—should not have an adverse effect on other commodities is still strong, and as far as I know, will not change. The Government will have to take into consideration in the future the impact that Government programs for the dairy industry and other industries will have on the cattle industry.

Mr. Rutherford: Bob Foster.

Mr. Foster: I have a couple of tangents that I'd like to take. The first, if I recall the 1985 Farm Bill correctly, there are provisions for another Dairy Termination Program. The Secretary of Agriculture has that discretion. Would you be in favor of his exercising that authority?

Mr. Wilson: No, sir, not at all, and we don't feel that the Secretary of Agriculture will do so.

Mr. Foster: We, as a Commission, are charged with the responsibility of trying to determine the impact of technology. From what we've seen today, it appears that as technology comes along, we're going to require a smaller and smaller cattle herd to produce the milk that's required for our national consumption. I'm wondering how you would suggest that we remove the animals from this herd over time that would not adversely affect your industry?

Mr. Wilson: Let me say this: I don't have and I don't know that the cattle industry has a magic plan. The position of the cattle industry would be that the marketplace is the best, has been the best, will continue to be the best way to send economic signals to dairy producers, as it has to cattle producers throughout the past years, to cull their herds, to increase their herds or to leave the dairy business. So our strong support of a market-oriented farm program for the dairy industry would be my response to your question.

Mr. Rutherford: Irv Elkin.

Mr. Elkin: Yes. You favor leaving the present Farm Bill alone. In your last paragraph you refer to price cuts tied to Government purchases. On the other side of the issue, if we run short of milk, it's mandated that the price be increased. Would you favor that as much as you favor the cuts, because that's part of the Farm Bill also?

Mr. Wilson: Yes, sir, I realize that. I can't say that we would support price increases.

Mr. Elkin: Would you oppose?

Mr. Wilson: No, sir. If the 5 billion pound purchase level is reached, I'm not sure. I can't give you a definite answer right now, but I'm not sure the cattle industry would oppose that. Again, the price of the milk—the support prices for milk and dairy products. Government purchases of surplus dairy products—is not really the issue. Obviously, those have had an effect on the number of cows that have been put into production over the years. The issue was the dumping—if I can use that word in a general sort of way—the dumping of the dairy animals on the market and the impact that it had on beef cattle prices. The level of the price support for milk is obviously related to that; therefore, the cattle industry would prefer to have the marketplace, as has dictated our prices over the years, set the market clearing level—market clearing price for dairy products.

Mr. Elkin: We met with cattlemen in order to patch up some of these differences and see if we can understand each other's differences. The dairy industry was opposed very vigorously by the cattlemen in an effort to take imports of casein into account to forego the price cuts that we're looking at in January of 1988. After some questioning, it finally came out that the cattlemen really opposed the casein being counted in that final figure because that would not cause the price support cut to be made. So it looked to me like the attack was just on our pricing, not necessarily on what happens to cows. That's why I asked that.

Mr. Wilson: Well, let me reiterate, the price support level is obviously going to have an effect on the number of dairy cows in production. Again, cattlemen are not going to say, "This is the specific price the dairymen should be paid for their products," but the high support prices that we've seen in the past few years, coupled with the declining cost of production, have contributed to the excess production, and the number of cows in the dairy herd.

Mr. Rutherford: Bob McSparran.

Mr. McSparran: I'd like to ask you a question. If my memory serves me correctly, when the program for disposing of cattle under the Dairy Termination Program was announced, the cattlemen came back and asked that the Secretary delay part of the slaughter until later in the year. But in the presentation this morning, it was pointed out that beef cows slaughter is heaviest in the fall. So it seems like what the cattlemen asked for was for the dairy cattle numbers to be slaughtered in the fall, right about the same time as the beef cow slaughter is going to be the highest. Am I right?

Mr. Wilson: What the cattleman had asked for was that dairymen be given the opportunity and that USDA facilitate the movement of dairy cows and dairy cow slaughter from the first period to the second and third periods—part of which would overlap the fall culling slaughter of beef cows—in an effort to distribute the dairy cows over those three periods and see more orderly marketing, and to hopefully reduce the impact on cattle prices.

So I can't answer your question exactly, but, you know that the USDA regulations for the program were written in such a way that about 80 percent of the dairy animals would be slaughtered during the first period. I may be off in my percentage, but it was very high, which was unacceptable to the cattlemen for obvious reasons.

Mr. Rutherford: I will take one more question. George Mertens.

Mr. Mertens: One of the statements you made was that there wasn't any study on the impact. There was quite a bit of study on the impact. In fact, that's why it was also included in the bill and the National Cattle Association went along and supported the bill in its original concept and enactment of 400 million pounds of meat.

The study, as I understand, was done on a cull count factor, not the fat cattle price, the slaughter price. Where the reaction came was on the fat cattle prices. The cull price wasn't as bad, yet a lot of beef cattle went to market in that first period. And it was a compounding thing all the way down, and I'm a little sensitive to the criticism that the dairy industry is taking on it.

Another point that I have a little problem with with the beef industry is that they are passing over the key issues or the key figures. These kind of things don't help the situation. It's not going to help the situation to keep going back and going over this fat cattle price when it's said and done.

But if any legislation comes up that the dairy industry is pushing, and the cattlemen feel that it is their obligation to defeat it, we're just going to have problems all the way down the line. And if that's your stand, it's going to hurt us both, period.

Mr. Wilson: Well, I would agree that confrontation is usually not resolved in a positive sort of way. Let me say this: I would have to disagree with you on the impact that the Dairy Termination Program had on beef cow prices. We saw very drastic drops in cull cow beef prices at the same period of time that we saw drops in the fed cattle or fat cattle prices.

Mr. Mertens: The biggest impact was on fat cattle.

Mr. Wilson: The biggest impact on a dollar basis likely was on fat cattle because of volume, sheer volume. The largest number of cattle moving to the marketplace are going to be fed cattle and stocker cattle versus cull cattle.

Let me comment on something else you said. There was some analysis done on the impact that the Dairy Termination Program had on the cattle industry. Unless my memory serves me incorrectly, the cattlemen never agreed to the Dairy Termination Program. Yes, sir, we did work to get a 400 million pound purchase of beef in the program when political reality dictated that we did not have the votes to prevent enactment of the Dairy Termination Program.

Mr. Homer: Sir, Do you also give the buyout program some credit for the cattle prices you have now?

Mr. Wilson: Well, Mr. Rutherford asked the same question.

Mr. Homer: I wasn't here.

Mr. Wilson: No, to answer your question though, the reduction or the movement of such a large number of dairy animals in an earlier period of time has contributed or has had some effect on the positive prices we see now. I think the reduction in inventory on beef cattle in the current market period and current conditions that we see in the feed yards across the country have had a bigger impact. But I will not argue that the reduction in dairy cows hasn't contributed.

Mr. Horner: The dairy industry and our program in the past have been bad-mouthed by the National Cattle Association, and that's not good for either of us.

Mr. Wilson: I agree, and Mr. Mertens made the same comments. Throwing darts at each other is not going to help a thing. The casein import issue in Congress and the continual mention of that in the newspapers and newsletters across the country was not a good idea.

Mr. Horner: You weren't even in the ball park when you talked about casein.

Mr. Rutherford: Mr. Wilson, I thank you for coming before the Commission. As with the meeting with the cattlemen in Denver yesterday, I said that we will work together, and the door is open for your comments, for your analyses, and they will be taken into accord. All of us in agriculture need to work together, and I hope that is your commitment. I feel it is. I thank you very much.

Mr. Wilson: Thank you very much.

Mr. Rutherford: Since the reporter has almost used the tape up on her machine, we do need to make a change. Let's take a very quick 10-minute break, and the Farm Bureau group will be the next group to testify.

(At this time a recess was taken, after which the Proceedings continued as follows:)

Mr. Rutherford: Come to order. Next we have representatives from the Texas Farm Bureau.

Mr. Rigler: I'm Bruce Rigler from Plainview, Texas. My brother Robert and I have been milking Jersey cows in the Texas Panhandle all of our adult lives. In fact, our family brought the Jersey cows to our farm in Hale County in 1916, so some Rigler has been milking cows twice a day for a long time up there. At the present we're milking about 85 cows. We normally milk up to 125, 135, but we are in the Dairy Termination Program and will be going out the last part of next month, so our herd is down to approximately 35 at this time. I'm presently Chairman of the Texas Farm Bureau Dairy Advisory Committee and am a member of the American Farm Bureau Advisory Committee.

In my opening comments to the Commission, I would like to stress what I feel to be one of the most important things concerning the future of the dairy industry. This is that our price support system must stay in place. Through the many years that we've had the price support system, it has been a stabilizing factor for the price and supply of milk.

Another thing that is very important to the future improvement of dairy conditions is our National Dairy Promotion Board. It has done a very good job in the short time that it has been in operation to advertise, promote, and conduct research on dairy products, and to make consumers more aware of the many quality dairy products available to the consumer, and the importance of dairy products in the diet as well as the real enjoyment of drinking milk, eating ice cream, cheese, and many other nutritional dairy products.

If we make the consumers more aware of and more familiar with our dairy products, we need to do something that will assure that the quality is there. One thing we recommend is that the Food and Drug standards be increased using the

current California standards as guidelines. And I will not elaborate on those. You are very familiar with them.

We would like to see a uniform methodology established for a laboratory analysis and enforcement procedures for the testing of butter fat and solids nonfat on a national level to be enforced by state regulatory officials.

Now, this closes my prepared portion. I would like to elaborate a little on what I have mentioned above. On the standards, we find in working with our health people here in Texas and working with other people that you find a conglomerate of rules and regulations and procedures and conduct throughout the many different states of the Nation on what is allowed in milk, what's not allowed, who controls what's allowed or whether anybody controls it, whether it be the fat solid content or, in fact, whether it be the health quality guidelines.

We do have some standards in the National Pure Food Act that control the standards of milk, but we do find that there is quite a difference from one state to the other. We believe that there should be some more uniform pattern put into effect nationwide on both the composition of milk and the quality of milk. And we feel that these are things that are very important.

We'll be out of the dairy business. My interest will not be out. I feel that we're at a place in the dairy industry of great challenge, coupled with great opportunity. I think we're at a point that our future could be the greatest we've ever had, but it will be very challenging to the dairy industry to have all segments come forth with programs that will get us to where we can be. We have the technology now that can do things that we haven't done, whether it be in controlled quality of milk or production of milk.

And I think that we should go forth. I see this Commission as a major step in the future of the dairy industry of the United States, and I think in visiting with you people and hearing your questions, that you're taking a positive outlook on the situation and things good will come out of it. Thank you.

Mr. Rutherford: Thank you, sir. Who will be next?

Mr. Elliott: He wants me to go next. I'm going to read my statement if it's all right, and I might make a comment or two on it.

My name is Gary Elliott. I live in Comanche County, Texas, where my wife, Jacqueline, and I operate a small dairy farm. With the amount of information coming from our state about the large dairy operators and the expansion in dairying, we would like to point out that there are still quite a number of small and medium size family dairies operating here. My definition of a family farm is one owned and managed by a family who furnishes all or a major part of the labor; any other would be a family-owned, a partnership, or corporate farm.

These smaller operations do take full advantage of the technology available, such as artificial insemination, D.H.I.A., computerized business records, plus many other good management practices adopted to their size operation and needs. This, along with a climate that does not require a

large investment in machinery and facilities, as well as allowing the harvest of a large part of the forage crops by grazing, makes these smaller units very efficient, productive, and profitable.

During my farming career, which started in the early 1950's, I have seen the emphasis placed on even larger production units. This includes the concept during the 1970's of constant expansion and perpetual debt. I believe this has been the cause of many farm failures and bankruptcies. I ask: Would it not be better to encourage more family size farms with the emphasis on stable production through the years and the paying down of obligations during good years to better weather the bad years, instead of doing this by expansion?

Bovine somatotropin, pardon me if I have a little trouble with that word, and its potential use. I would point out first of all this is a very different technology than artificial insemination and mechanical milking. With advanced technology in feeding and other management practices, as well as genetic advances made through artificial insemination, is it really needed for profitable production? I do not believe so.

There should be concern about possible misuse of the product, and also the concern of consumers that their food supply be natural and not contain any synthetic substances will probably cause declining sales of dairy products. While I would not like dairy farmers denied the use of technology, I do question the use of any substance that will affect our animals' health, our own health, and the market we all must have.

I would like to encourage the retention, expansion, and improvement of the Milk Market Orders. These orders play a very important part in monitoring our markets through its laboratory and auditing departments. I would comment especially on the effectiveness of the Texas Milk Market and the diligence of its Administrator, Mr. Chapman E. Dunham, and his employees.

I believe there needs to be an effort put forth by all concerned, including producers, processors and regulatory agencies to produce and deliver to the consumer a better quality product with a longer shelf life. I would like to make a comment there and say I'm not necessarily referring to added solid or fats. I'm referring to quality, which I think there are some problems with, such as high acids, et cetera.

I would like to see a more moderate approach by Farmers Home Administration and lending agencies to the financing of beginning dairy farmers. Too many times financial institutions encourage too rapid expansion and too large operations for beginning farmers. This leads to operations sized too large for the management abilities of these operators.

I also would like more emphasis placed on milking better cows in smaller numbers. I refer you there to an article in "Hoard's Dairyman," page 102, February 10, 1987 issue, which explains this far better than I can with the limited time we have here today.

As a member of a dairy co-op, I quite naturally am not anti-co-op. However, I would like to see bloc voting in farm program referendums disallowed. I feel this discourages producers from full participation and gives, at times, a dis-

torted view of how producers actually feel on an issue. If bloc voting is allowed, a co-op should be required to poll its members by mail and the results tabulated and ballots retained for a period of 1 year.

My view of the dairy situation in general is that although there is quite a lot of expansion in our state, it will probably not be ongoing for a long period of time. There is, of course, interest in starting up operations of all sizes from small to large at this time. I believe there are a number of factors that will affect the dairy producers and types of operations in the future, such as labor availability, tax law changes, feed costs, and changes in water and pollution regulations, to name a few.

And I feel there will always be different size operations based on the desires of the different operators and what they wish to achieve.

Finally, I wish to say that the Food Security Act of 1985 is working very well and should be allowed to continue without any major changes. Any future farm programs should be well thought out, then set in place for a number of years, say 5 or 10 years, so producers know what to expect and plan for over a long period of time. I might add that no producer can or should be guaranteed a market nor a profit through legislation. The type of program I would probably recommend for the future would be somewhat like we have now without a herd termination and with limited purchases by Commodity Credit Corporation.

I thank you for your time and attention, and appreciate your visit to our great state.

Mr. Rutherford: Thank you, Gary. Don.

Mr. Smith: Mr. Chairman and members of the Commission, my name is Don Smith. I'm a dairyman from Sulphur Springs, Texas. I'm a member of the State Board of Directors of the Texas Farm Bureau, and I want to thank you for being here today and giving us all an opportunity to share our thoughts about the dairy industry with you. There are three or four areas I would like to talk to you about today.

And if I sound like I'm hollering, it sounds to me like I'm just screaming, I've got a terrible cold, so just bear with me.

First, I am from Hopkins County, the leading milk producing county in the state of Texas. Our county produces some 600 million pounds of milk annually from some 400 to 500 dairies. Hopkins County is located in northeast Texas, some 50 miles from the Dallas/Fort Worth area. The majority of our milk comes into the the Dallas/Fort Worth area and is sold here to two large regional cooperatives, one smaller cooperative, and two or three independent organizations that buy their milk from producers rather than through the co-ops.

I've been in the dairy business some 20 years, and presently we're milking 160 to 165 cows. And just as you have, I continue to see major changes from year to year to meet the changing conditions of the national economy. In the past 5 years we have seen the average herd size in our area increase from 80 to 90 cows to 120 to 130 cows per dairy. There are many herds today that are milking over 300 head, and the largest dairy in our county is probably 800 to 900 head of cows. In addition to this, our average production per

cow has increased from around 13,000 pounds to 14,000 pounds in the last 5 years. This has been due primarily to a favorable milk-to-feed ratio and our ability to produce cheap, high quality forage. I believe this trend will continue toward larger herds and higher production per herd.

I believe if you'll look in your sheets that I handed you, there's a kind of a summary of milk production in Hopkins County. And I want to point this out to you: I think that Hopkins County probably characterizes the dairy industry, in not just Texas, but to a large extent in the whole country. We are a small county. The total population is probably 30,000 folks, but we're unique in the fact that the dairy industry is the number one agricultural industry there. We don't produce anything outside of forage, particularly. Most of our feeds and grains are brought into the country. The entire county economy is based on the dairy industry, as far as I'm concerned. I think one of the charges that you as a Commission have to look at is the impact of future dairy policies on the impact of the rural area.

At one time Hopkins County was the number one county in the country of dairymen under 30 years old. We had an aggressive Farmers Home Administration administrator there. We saw lots and lots of young dairymen, young people that are my age today that went into the business because of the Government program. Those people today are producing milk because they were able to get in a favorable environment.

But I think this characterizes the national issue today: Whether or not we want to see large dairies or small dairies. I think Hopkins County is very characteristic in that we have seen an increase in herd size; we've seen an increase in production per cow. I think that's going to continue, but I think to be realistic, we're going to have to see some smaller producers begin. A lot of producers have 800, 900, 1,500 cow herds that we're seeing built up in the central Texas area and far west Texas. So I think that's something you'll have to consider in your final analysis of what policies to recommend in your recommendations to Congress.

Second, I would like to express my opinion about the price support system and its future. I believe the price support system has served the industry well in the past and will continue to do so in the future. It has provided some price stability for producers while insuring an adequate supply of milk for consumers, just what it was designed to do. However, I believe it needs some adjustment. In its present form, the Government becomes the open-ended buyer of all surplus milk, and there is really not much incentive to reduce production, as long as the Government is a major player in the market.

Presently, even with price support cuts and the Dairy Termination Program, we're beginning to see production increase again. This may be due primarily to favorable milk-to-feed price ratio and the continued depressed state of the rest of the agricultural economy compared to the dairy industry. Historically, producers' prices have continued to go down as Government purchases went over the 5 billion pound mark, and have increased as they have decreased below that mark. Perhaps price support levels should be tied to the level of Government purchases.

I think there in my handout to you there is a brief chart that substantiates that. I feel like the price support system, as I said, has served us well. I think that the Government has a role to play; it has in the past and it will in the future, but it does have to have some adjustments.

Thirdly, I believe we need to continue our present advertising and promotion program. We've seen an increase in consumption of dairy products, and there's no doubt in my mind that part of this increase is a result of our present promotion program. However, for the best use of our promotion dollars, I wish there was an organization doing all of the promotion, research, and development. I believe that as long as we promote milk on its food value and its benefits to health, we will continue to see our consumption increase.

In conclusion, let me say that I believe we will continue to see the dairy industry be a vital part of our economy, not only here in Texas, but nationally. I believe the trend for larger, more efficient operations will continue, but that is not to say that smaller, highly efficient operations will not continue to do well in the industry. I believe the Government can and will play an important role in determining the prices we receive for our product, but that role must be consistent with other sectors of the farm economy for us to maintain a balance of supply and demand.

We hope that we can answer any questions you have. We do appreciate the time and effort you men are putting in the Commission, and we look forward to seeing your results.

Mr. Rutherford: Thank you very much. Are there any questions or comments? Pearson Knolle.

Mr. Knolle: Don, concerning the price support going down if production got over 5 billion, how far do you think it can go down before production stops going up?

Mr. Smith: Well, I wish I could answer that. That's a good one. I don't know, Pearson, because I feel like that as a dairyman we're all in competition with one another, and I don't think there's any one magic figure that says: This is the price of milk that's going to force me out of business, where Bruce might be able to stay in longer, or he's going to have to go out of business before me.

Every person is going to have his own limit. He's operating by his own merits, and he's going to produce for that price. But there is going to reach a point out there somewhere that it's going to go the other way, and there's going to be people drop out of production all along the way. If we use price supports, there's going to be somebody who can't produce for that.

As Gary said: Should the Government guarantee someone who's not as efficient as I am and should I help support them? I have a real question about that.

Mr. Knolle: In your county or area, how many young dairymen would be in trouble with the next 50-cent drop? Would that affect anybody if the price of feed stays where it is?

Mr. Smith: I'm sure it would affect some people. I couldn't say a percentage, but as I said before, every person's own cash flow is different, and you can be sure it's going to push some over the edge. I think possibly what it's doing is it's going to maybe force the banks to force some of them over

the edge. A price cut is coming, and if something's not done, there's going to be another one. So they're going to bail out while they can. As far as percentages, I wouldn't even hazard a guess, because, you know, you hear everybody talk. Everybody was bankrupt yesterday, but we're all still going.

Mr. Rutherford: Are there any other questions or comments? George Mertens.

Mr. Mertens: Mr. Elliott, on your comment on technology, if there was a dip in consumption because of consumer resistance, who should pay for the cost of advertising to get the consumption back? Other people have said that the dairy industry should pay for it along with the chemical company.

I was just wondering about your views on it. There is going to be buyer's resistance. We had one presentation given to us in Wisconsin. When they ran a survey, 33 percent showed some concern. I was just wondering if you had real concern about that?

Mr. Elliott: With what little I've talked with consumers they received a more favorable reaction than I did. I am concerned that the dairy farmers will be left to recover the market themselves without the help of the industry producing the hormone. I am also concerned that once lost we will never recover the market because of loss of credibility in the eyes of the consumers.

Let me make another point. I think from my experience and observation that we have too often accepted technologies too quickly and without enough study of its adverse effects on the environment, the animals' and our own health.

Let me make one thing clear. I'm beginning to think more and more—You know, I've been in the farming business for a long time, and I've seen technologies come and maybe some technologies go. And I'm beginning to get the feeling that maybe too many of the times we jump into these so-called technologies too fast. Something becomes available, we say, "Hey, folks, that's our answer." That's a fantasy. "That will get us all out of trouble," and we go to using it more or less wholesale. In other words, we just accept everything that it's going to be good.

Maybe we need to turn around and look and start doing some of these things that—Folks, all of it's hazardous until it's proven it isn't, without a shadow of a doubt. I know that's a little harsh, but I'm beginning to have some second thoughts after a period of years of seeing some of these things, some of your pesticides and some of your other things.

One last comment, in the first of my statement I refer to my small dairy operations. I would point out that we are a 35-cow operation raising our replacement heifers. We grow pasture and forage crops and purchase the grain mix. We have done very well financially with this small operation through the years. We do have a number of these small operations in our area that are doing very well, which leads us to believe that bigger is not always better.

Mr. Rutherford: Irv Elkin.

Mr. Elkin: Yes. Don, on the last page, you touched on some moving price based on Government purchases, but on the

last page you have a supply and demand adjustment based on net purchases percent of support price. And then you mention a moving average or an economic formula.

Mr. Smith: This is a suggestion, and that's all. This is for your information. This was put together back 3 or 4 years ago looking at the history as to what we have done, I think, between 1949 and 1980. It is some sort of supply-demand adjuster according to Government purchases as to what percents of support price we can obtain for our product.

Mr. Elkin: At present we just have a market dairy price of 50 cents up or down. You're suggesting some type of economic formula or price movement based on net purchases, is that right?

Mr. Smith: Yes, sir.

Mr. Rutherford: Gentlemen, we thank you very much for the fine testimony and presentation of the Texas Farm Bureau. Next I'd like to ask Leon Klement, a dairy farmer, to come forward.

Mr. Klement: First, I'd like to thank all of you for giving me the opportunity to be here and try to present this. I've written a lot of thoughts down, and as I sit here and look at them, I don't know which ones I want to say first. There's one major one.

The main thing that I would like to discuss—I'm 34 years old. I'm from Muenster, Texas. My brother and I operate a Jersey herd. We milk about 150 cows. I don't have any glitzy things to hand you here. The gentleman I talked to in Washington the other day said, "They just want to know your gut feeling on what you think and what you think you're going to need and what you feel about the dairy business." So I'll give it a go.

I don't want a quota. It's as simple as that. I don't know how else—I can sit here and discuss it for 30 minutes, we can go over the particulars, to whose advantage it would be and to whose disadvantage it would be. But it all boils down to, I don't want a quota or base. It's been called base or supply management. Whatever you want to call it, it all basically comes down to a quota.

One main reason I don't want a quota is because of the cost. The base will have to be regulated if it's not bought and sold, which in itself is a form of regulation. It will have to be tied to the farm something like the tobacco program is, and we don't need that.

Like we had a regional base here a few years ago that was bought and sold. It will be another cost that we're all going to have to bear. This quota is either going to cost me or the consumer. Someone always pays for it.

A lot has been said in the past that we're all in this together as far as production is concerned; no one part of the country is more or less responsible for this, which I find hard to realize from my point of view being down here in the southwest. I can remember an article a couple years ago that gave the increase in milk production. In the last 10 years, from 1975 to 1985, the state of Texas' production, our total production after the 10 years, was a little right at half of what the increase alone of the production of the state of Wisconsin was. Now, I'm not picking on any individual state, out

you have to understand from my point of view being down here that I think you could get rid of the state of Texas and it wouldn't matter as far as the surplus goes.

Another thing that has been hammered on quite a lot lately in the press and in the farm publications and here today is: We do not have a free market. Now, there is some truth to that. We do have Government regulations on everything, on everything you buy from foreign cars to everything. But I think what a lot of people are missing out on is the consumer in this country determines what is going to be bought and sold. The consumers are your free market. We could jack the price up to \$50 and all get rich, if we could get the Government to do it. But if no one buys it, we've achieved nothing. We've destroyed everything for my kids and your kids and your grandchildren, anybody that's going to follow, and there will be no dairy industry.

Look at what happened to margarine and butter. They can make imitation milk. We can get the price of milk up, but what would it cost us in the market in the future? If we can't sell it, it does none of us any good. You're talking about B.H.T. and new technology. We can't stop technology. Technology is going to take care of itself. There's nothing we can do about it, but we can set the price of the product.

I don't know how cheap milk would have to get before you could get rid of the surplus, but I know that I want the opportunity to compete for that market. I don't want someone sitting in an office saying, The United States needs 5 billion, 4 billion, whatever the amount of milk is, and we're going to allot Joe, Bill, and whoever so much of that market. That's franchising the market. That's like telling me that I have to buy the right from someone else to produce milk.

And in this country—this isn't Canada; this isn't the Netherlands; this isn't Great Britain where I know they've all instituted quotas. This still is the United States. And this may sound corny, but I feel that I've got the right, as long as I can do it better than anybody else, to produce a product.

Now, if this should come to a quota in the future, I'll still be in the dairy business. I'm a third generation dairyman. My brother and I operate a dairy together. There's nothing else that I plan to do. If I have to produce under a quota, I can produce with the best of them. They won't run me out of business. But I don't think that offers the best opportunity for this country and for my children in the long run to produce milk.

Now, if Congress decides that we do need this program, I want my own vote. That is one thing that I think is the most important thing of all these hearings. I don't want to be bloc voted. I am a member of AMPI. I support co-ops. I market my milk through AMPI, but I reserve that right to something that is as important as what this issue is.

And I think that's the basics. We can talk new technology. We can talk killing heifer calves. We can talk anything you want to. I think what this all boils down to is, are we going to have a quota or are we just going to let the price drop? And for something as important as forever changing the way milk can be marketed in this country, I want my own vote, and I believe everyone in this country deserves their own vote. I

elect my Congressman, but he doesn't elect my President for me.

I'd like to thank you again for your time, and that's all I have to say.

Mr. Rutherford: We thank you for your taking the time to come down and say what you wanted to say. Are there any questions or comments?

Mr. Horner: I'd just like to say I appreciate you testifying and sharing your knowledge of the dairy industry.

Mr. Klement: Thank you.

Mr. Rutherford: Thank you very much. J. G. Walker will be the next witness.

Mr. Walker: Members of the Dairy Commission, my name is J.G. Walker. I'm a dairy farmer from Sulphur Springs, Texas. I've been in the dairy business 31 years. At this time, my youngest son is a partner with me in a 250-cow operation. I'm on the Division and Corporate Board of the Mid-American Dairymen. I appreciate you coming to our area today and the opportunity to share my thoughts with you regarding dairy policy.

The basic principles of dairy policies were well spelled out with the passage of the 1949 dairy price support program. It was designed to maintain prices to dairy farmers sufficient to maintain an adequate supply of pure, wholesome milk for the consumers. It set in motion the means of removal from the market of excess production to be stored against a temporary shortfall in production. I believe this approach is still very important. We do need some provisions for reducing the cost of the program to the Federal Treasury.

In recent years we made use of two programs to accomplish this goal of reducing production costs. Both programs worked as they were designed to work. Notice I said designed. Unfortunately, both had had basic flaws in that they attempted to fix a long-term problem with a one-shot temporary solution. If the Diversion Program could have lasted at least 3 years, the results would have been better and its effects would have extended over a longer period after its termination date. The whole herd idea was great in getting production down, but it didn't provide any incentive to the dairyman who was raising heifers. The program that started out to be a whole herd buyout ended as a Dairy Termination Program. The provisions to idle farms and people greatly increased the cost of the program. The only benefit came when the cows went to slaughter and the size of the national herd was reduced.

The Department of Agriculture made serious blunders in not insuring an orderly slaughter program. We've heard that this morning, and we all know that. It seems as if they purposely turned dairymen against beef producers.

Also, the Secretary of Agriculture has arbitrarily decided not to implement those provisions in the law to repeat the process as needed. He evidently wants to use those provisions in the 1985 law that will reduce price 50 cents on January 1, 1988 to \$10.60 a hundred, even though we're getting very close to the desired level of production. This is down from \$13.10 in November 1983. Further cuts are provided for in years to come.

This trend downward in price does not make sense to me when our advertising program that we finance has increased consumption over 3 percent per year in the 3 years it's been in effect. We are rapidly getting our house in order with the programs we now have in place.

Somehow this country must think of farmers as second-class citizens. We're forced to pay our help a minimum wage while economists seem to think that we who chose to produce milk and dairy products for this Nation must struggle against each other in the economic arena until we are hurt financially enough to quit because we cannot go any further. Those who survive to milk a lot longer lose a lot of their resources while this economic struggle takes place. This is somewhat like the Roman gladiators who struggled against each other for their lives 1,900 years ago. Surely there's a better way.

All of us are payers of electricity bills each month. Here in Texas rates are regulated by the Public Utility Commission, as is true in most states. It is public policy to allow the power companies to make 15 percent on their investment in generation and distribution facilities and equipment, after paying all costs, including labor, which far exceeds the minimum wage. It would be a happy day in dairyland if we could make 15 percent on our investment and draw a big fat salary on top of that. Telephone and gas companies are treated similarly. What a paradox we have when some are permitted a return on even the cost of the flower boxes in their offices, and we providers of the essentials of life are denied a decent livelihood. Perhaps this is one of the reasons our population has shifted from the rural areas to the cities during our lifetime.

I'd like to submit my ideas on how to balance supplies with market needs so that our price support program would still work and be cost effective.

First, in order to plan effectively, it is imperative that we know what farmers' intentions are. How many cows are in the present national herd? How many heifers are waiting in the wings to enter the national herd? Those that participated in the diversion and bid in the Dairy Termination Program submitted accurate cow and heifer counts to their local ASCS offices. It wasn't all that much trouble to count the cows and heifers and keep these counts current. This information could be stored in one computer at USDA.

Also, those who wish to get out or even reduce their herds could submit bids that would stay in place indefinitely until they pulled that bid down. Those bids would be to sell for slaughter one-half, three-fourths or all of their cows. USDA would start out by accepting only a few bids per day, picking the cheapest bids. As they gained experience, the program could be fine tuned to tailor the national herd within that magic 3 to 5 billion pound cushion that we need, that the producers and consumers need to stabilize prices.

I would propose that dairy farmers pay for this program in its entirety through milk check assessments. Does the business world sell for less when sales are moving up? That's what they want us to do right now. Theoretically, if prices to terminate stabilize, and I believe they would, a farmer would get back most of what he paid in when he leaves the business.

Wouldn't that be a nice IRA when we get too old to go to the milk barn anymore?

If farmers were permitted to cull half of their herds, it would facilitate a father getting out and leaving the son or daughter with the best cows. This program would get cows culled that needed to be culled. I bid in the whole herd program. My bid was too high because I could not accept the idea of sending beautiful A.I. heifers that had all their productive lives ahead of them—I couldn't stand to send those to slaughter. I would have bid much, much less to have sent the bottom half of my herd to slaughter. If we could have had this concept in place when the present law was passed, perhaps the \$700 million we dairymen have paid in assessments would have paid for the whole program.

I would propose that USDA publish the amount of bids each month that they accept. Very quickly those who really want to get out would reduce their herds—would reduce their bids to the level being accepted. This in turn would reduce my assessments.

The USDA would still pay for the surpluses removed from the market, but it would have the tools at hand to tailor supplies to market needs, and thus hold their costs to a minimum. Prices should rise or fall based on market demands and economic factors. I believe the National Milk Federation has developed such a formula. Maybe it needs some more work on it, but it's better than the political method. This method makes more sense than leaving that decision up to the politicians and their appointees.

Beef producers should welcome the idea of dairy only having enough cows to produce the milk needs of the nation, leaving them the opportunity to produce more beef.

Gentlemen, this is a program to tailor supplies to market needs through cow removal. Remember, there are just so many cows in the national herd. We don't necessarily need to terminate dairymen or dairy farms. The cows give the milk that's causing the problem. I happen to believe that communities and towns are better off when we milk those cows in family farms rather than giant feed lot situations.

I have one other comment that I didn't put in the prepared text. A lot of people are wanting dairymen to control their own destiny by responding to economic signals. The only trouble, it takes at least 2 years to raise a heifer to go in the barn. We get a signal today through price that we need to cut back. It takes us—or the reverse of that, we need to increase—it takes 2 years to respond. And not knowing what every other dairy farmer is doing, I might make the wrong decision because the price says expand.

Asking an individual dairy farmer to adjust production to market needs is somewhat like the privates in battle making the strategy decisions. Every one will do what is best for his own welfare. We need a general staff of such, a board like you fellows there, that knows what's going on at the farm level, who will give us some directions, hopefully with some sympathy towards the troops in the field. That's all my prepared statement.

Mr. Rutherford: Thank you very much, sir. I might ask: Does your statement reflect the views of the organization on whose Board you sit, or is it based on your personal ideas?

Mr. Walker: Med-Am does not have at this time, I don't believe, a policy set in concrete. We're working on it. I asked my Division Manager if they had anything they wanted me to put in. He said, "Well, we can write it for you if you want to, but if you want to do your own thing, fine." So he sent me a copy, and then I did my own thing.

Mr. Rutherford: You did an excellent job. Are there any questions or comments? We thank you very much, sir. I'd like to ask Jim Loper, a dairy farmer from Santa Teresa, New Mexico, to be the next witness.

Mr. Loper: My name is Jim Loper. I am a dairyman from Santa Teresa, New Mexico. I'm also a member of the Board of Directors of the Southern Region of Associated Milk Producers. And I really do appreciate this opportunity to comment with you on the future of U.S. dairy policy. Rather than read my statement, you have it in front of you, I have a few additional comments to make that hopefully will shorten the length of time, because I know you have been most patient sitting here listening to everybody.

Most emphatically, as my statement indicates, the dairymen in New Mexico do support the present dairy price support programs. The CCC purchase operation through which it is carried out should be maintained. The stability which has insured stable pricing to the consumers and with no wide swings to the dairy farmers must be maintained. Neither the consumers nor the dairymen would benefit if the milk industry had to undergo the wild swings we see, say like in the pork operation.

While the dairy price support system is not perfect, no viable or practical alternatives have been discussed that we in New Mexico have been willing to support. The Dairy Termination Program is working well in New Mexico. The June production in 1987 versus June of 1985 shows a decrease of 13 percent. Some 14,000 cows out of our state herd of 65,000 have been removed. The national statistic will not reflect these totals. What I'm telling you versus what you will see by the USDA are different. The reason being that the largest participant in the Dairy Termination Program in New Mexico had 4,000 cows and two herds is credited to California, because he did submit his bid on his California operation. So whatever figures you see on New Mexico, they are off a little by the fact that 4,000, or roughly a third of the total cows that should be removed, will not be in the figures. So when the Commission takes a look at the DPT, if you will, remember and be aware of this particular discrepancy.

One reason you see New Mexico has increased and Texas has increased is a program we call in New Mexico the Hauling Adjustment Plan. As you've been aware of, it takes large distances to move our surplus milk or milk to market. New Mexico is an excellent place to produce milk, but unfortunately, with the population as it is, it's extremely hard to sell it. Therefore, most of our markets are in Texas and other points some 600 to 800 miles away.

What this plan does is cause the dairyman who desires to increase over his historical production to pay to move his product to market. The cost approximately now is \$1.25 on each additional 100 pounds of milk produced over his historical history. Therefore, a farmer's desire to grow has a minimal effect on his neighbor. This program has worked well as

indicated by virtually minimal growth in New Mexico the last 2 years it was in operation. As the result of living with a supply management system in the past, as well as this particular small supply management, you might say, we urge the Commission to recommend to the Secretary a National Supply Management System.

Our cooperative favors the two-tier pricing system, as you've heard. But whatever system or plan is in existence, as long as it's simple and direct, it will be highly supported by New Mexico/far west Texas producers, as we understand the value and hopefully the needs in the future for a system.

I've heard—some of the speakers earlier were asked to comment on new technology. The BST usage in New Mexico will be an economic division strictly. Since this area is considered a "progressive" dairy state, our herd average of 16,500 per cow with the second or third highest production in the nation does indicate that we are using the latest dairy technology, as far as milking equipment, rapid exits, sprinklers, a similar type situation in California and Arizona. The latest technology will be utilized. If BST is the latest technology, and it is a profit, the dairymen in New Mexico will utilize it.

The present 10 to 18 percent projected potential milk production by the hormone would indicate to us that a national supply program is also tied in with this particular product in order to minimize the increase. The New Mexico dairy farmers will not be satisfied to voluntarily milk less cows with the same production level unless a national support or supply management program is in existence.

This philosophy of same milk with less cows is really not consistent with what the present business thinking is in New Mexico, as maximum utilization of each dairy facility is the general rule. This goes the same whether you're in marketing—in making, manufacturing or whatever. The more efficiency through that operation, the less the unit cost. And the dairymen, I say, will not be interested in seeing their barn empty when they could run more cows, unless there's some type of program that either rewards them or some type of disincentive to produce more milk.

Finally, I ask that any provisions to any new program be strengthened to address the problems we are seeing in New Mexico. And I will read, in order that I will not be misunderstood on page 4.

At the present time we are witnessing a potential erosion of the effects of the Dairy Termination Program because of ASCS rulings and advice which have allowed program participants to finance new dairy operations. I don't believe this is in keeping with the Congressional intent of the program. It is very damaging to every dairy farmer that continues to pay the assessments used to finance the buyout operation. It is further damaging to dairy farmers to the extent that such new capacity expands production to the point that further price support reduction might be made.

In setting up the termination program, USDA regulations stated that the program purpose was to reduce commercial marketings of milk. In defining violations, those same regulations state: "If CCC determines that any participating producer has erroneously represented any facts or has

adopted, participated in, or benefited from, any scheme or disease which has the effect of or is designed to defeat the purpose of this program, no person shall be eligible for payments under the contract, and all payments made to any person under the contract shall be refunded."

In the face of this, it is difficult to understand and accept the rulings issued by the ASCS. In New Mexico there have been two letters sent to each individual dairy participant which allows them if they use those guidelines to build new facilities on other than existing property other than existing dairies, with the guidelines in order to lease it and how to get around the system.

I personally know of two dairymen who belong to the program who now are in "family type operations" where their son or brother is now the owner of a operation and they are on the place managing it. There are additional dairymen waiting for state pollution requirements before they start.

In the development of future policy, care must be taken to prevent this type of administrative undermining. It is costly to both the taxpayer and the farmer, and only serves to provide a windfall to those willing to abuse the program.

I thank you for your time and patience. I would invite you, if you have future hearings, that we have a good viable dairy industry in New Mexico, and if the need ever occurs, please, as they say down here, "Y'all come and visit us."

Mr. Rutherford: Thank you, Jim. Are there any questions or comments. Irv Elkin.

Mr. Elkin: Jim, you mentioned earlier, and I'm aware of this, that you have sort of a two-tier pricing in your area.

Mr. Loper: That's correct.

Mr. Elkin: We keep hearing that a two-tier price would have to have a very large disincentive to encourage people to limit output, but that doesn't seem to be the case in your area.

Mr. Loper: No. Well, the maximum charge has been on that \$1.25 at one time. It has since been lowered with a change in differentials or the cost to move milk to a market. And I think our production levels have shown that during 1986 and 1987 we have had a minimal increase, even with the Dairy Termination Program. And you quote those figures back in, it has been a disincentive enough to cause the dairymen to look twice and see whether it's financially viable to pay to move that milk the 600 or 800 miles here to Dallas or Kansas, or even in some cases, a lot farther.

Mr. Elkin: So the penalty has been a disincentive to producing extra milk, hasn't it?

Mr. Loper: Well, we really don't call it a penalty. We call it a cost of moving the product. We think it's up to each individual dairyman to make that decision, as in a two-tier pricing system, whether he can profitably go on that system without making his neighbor pay for it.

Mr. Rutherford: Any other questions or comments? Jim, I think as dairymen we wholeheartedly agree with the problem you're addressing, the circumventing of what we thought were the rules and regulations on the buyouts. I think it's important that all of us get our legislators to realize

it is a serious problem. It happens in the northeast, as well as in other places. We thank you very much.

Ardith Sauerwein, a dairy farmer from Newton, Kansas, will be the next to testify.

Mr. Sauerwein: Thank you, Mr. Chairman. I feel it a privilege to be here today and testify. I would like to comment on this young dairy farmer that was just three or four speakers ahead. I shared his philosophy about 4 years ago, but I don't today. I think he will change over the years. That's my advice to him.

I'm Ardith Sauerwein, a dairy farmer from Newton, Kansas. I'm a member of the Board of Directors of Associated of Milk Producers, and of the Southern Region of AMPI. I've also served as Chairman of the Marketing Committees of both Boards for a number of years.

I refer to myself as a dairyman, although in a few weeks I will be a former dairy farmer, leaving a lifetime of dairying through the Dairy Termination Program. I think I'll always have a feeling for dairy farmers. I've been with it too long.

There are changes needed in the national dairy policy to maintain it as an effective combination of programs and authorities to meet the needs of farmers, consumers, and Government. That is not to say that the present policy elements have not served us well. They have and continue to do so. It is simply a fact that a more effective job can be done.

My comments are directed toward the Dairy Price Support Program and related issues, as this is the basic thrust. I feel, of the Commission's responsibility. Overall, the changes I see as necessary are not radical, nor do they involve basic restructuring of the price support program and the CCC purchase program used to implement it. The addition of a standby supply management program to curb excessive expansion when necessary is essential. In addition, two other changes would improve the price support program itself. The first would more nearly assure the announced price support level to be realized. The second would restore an effective index or similar means of determining the price support level.

Since 1980, the only time the Minnesota-Wisconsin Price Series for Manufacturing Grade Milk has reached or exceeded the announced price support was when supplies were shortened by the Milk Diversion or Dairy Termination Program. This failure has reduced the price of milk to just about every dairy farmer in the country. The price support is the major factor in determining the M-W, which is used as the basic price in the Federal Market Orders. While nobody has, to my knowledge, calculated the cost of this shortfall, it surely reaches into the hundreds of millions of dollars since 1980.

The primary cause for this problem is failure to make use of allowances or processing margins which accurately reflect plant operating costs when establishing CCC price support purchase prices. The current make allowances, \$1.22 for milk used in making butter and nonfat dry milk, and \$1.37 for milk going into cheese, were set in 1979. Since that time, almost every element of the dairy plant operating costs—energy, taxes, labor, packaging materials, transportation—

has increased. A plant operator selling product at CCC purchase prices has two choices: He can either pay the farmer the announced support level and dissipate his assets, or he can underpay the support level. In most cases they underpay the support level.

Until the 1981 Farm Bill, the parity index was used to set the support level. Critics charged that the index did not reflect the cost structure farmers faced in producing milk. Partially as a result, the 1981 Farm Bill removed parity as the means of determining the support price. That has continued in the 1985 bill, although the House did include an industry-developed dairy parity formula in its version of the legislation.

In order for the price support level to reflect conditions farmers face, it must be determined on the basis of factors representing these conditions. In 1983 and 1984, dairy farmers, through National Milk Producers Federation, spent a great deal of time developing the dairy parity index based on the costs farmers faced in producing milk. This was the basis for the dairy parity formula approved by the House in 1985. This would provide a reasonable starting point for the development of a workable indexing mechanism for future use.

I would like to comment on the impact of new technology in the dairy industry. Much has been said about the changes that will be necessary to accommodate Bovine Growth Hormone, embryo transfer, broadened computer application, and other developments.

We had one man testify this morning from Oklahoma, who has a fine registered herd. And just to give you an example of this embryo deal, he has 28 heifers out of one of his prize cows. That's almost unbelievable, so it's coming, fellows.

There's no doubt that change will take place. That has been the surest thing in the dairy business for the past 40 years. If we look back, the dairy farms of 1950, 1960, or even as recently as 1970, are pretty obsolete by standards of today's management and the techniques and equipment used. We're a highly competitive industry whether we realize it or not, and the farmer that hasn't kept pace has fallen by the way. If we measure productivity increases in the dairy industry by changes in production per cow, we find a compound rate of increase of about 2 1/2 percent per year since 1945.

Prior to writing the 1985 Farm Bill, the U.S. Senate requested the Office of Technology Assessment, a research arm of the Congress, to evaluate the impact that new technology would have on the dairy industry by the year 2,000. Concerning all of the available and prospective technology, the OTA analysts predicted that production per cow would rise to just over 17,600 pounds by the year 2,000.

That's an impressive increase from the 12,309 pounds produced in 1982, the base year for the OTA study. What is even more impressive, however, is the fact that if we continue to compound the 2 1/2 percent rate of increase we have witnessed since 1945, milk production per cow would total 18,612 pounds by the year 2,000.

The fact is that we have been there. The industry has lived with changes at least as great as these predicted and has adapted to them. At the same time, the policy instruments,

particularly the price support program, have been flexible enough not only to accommodate these changes, but to encourage them.

A lot of the new technology costs farmers substantial money. I doubt if it would have adapted as quickly if the price assurance and stability provided by the price support program were absent. I have heard some talk that the technology changes in prospect will make the price support program obsolete. Some have suggested that we had better make some unspecified policy changes in preparation for this technological revolution. The fact of the matter is that we are not facing a revolution. This is the next round of continuing evolution. I expect the dairymen of the 1990's will adapt to it and move on as we have for the past 40 years.

Any new technology must be fully tested as to its effectiveness and safety before being applied. As a major element of the Nation's food supply, there can be no question about the safety of milk and dairy products. Further, from the farmer's standpoint, any factor which raises questions about the safety of the product reflects negatively on his market. These are risks that cannot be accepted.

And on the following 2 pages we run this 2 1/2 percent production since 1945. I think it's real interesting. But I think really, I personally feel that this National Commission on Dairy Policy is good for dairy farmers, and hopefully it will help to keep us more united as an industry. That's my hope.

I feel that if dairy farming is to attract our young people, we need to have a workable relationship with Government. I really feel that. Dairy farmers, I think you all know, are the first to help fund the self-help programs, with the Dairy Diversion and later the Dairy Termination Program.

I really appreciate you fellows taking your time and talents and spending on this committee, and I'm looking for great things to come from it.

Mr. Rutherford: Thank you, Art. Are there any questions or comments? I think you've covered it very well, Art. Thank you very much.

Wayne Palla, a dairy farmer from Clovis, New Mexico, will be the next witness.

Mr. Palla: My name is Wayne Palla and my wife and I are the sole proprietors of an integrated farming operation. We milk approximately 1,050 cows in a operation in Clovis, New Mexico and Canyon, Texas. I have 2,200 acres of irrigated farmland and approximately 24,000 acres of ranchland.

I want to thank you for giving me the opportunity to participate in this meeting. I sit on the Board of Directors of the Southern Region of Associated Milk Producers, Inc. Being a dairyman, I'm sure you realize the lack of a consistent, on-going policy with regards to the dairy industry over the past 4 years has led to great uncertainty within our industry. I sincerely hope that the time and effort you spend on this Commission can get the dairy industry working together and bring a degree of stability back to our industry.

Looking back on the Milk Diversion Program and the Dairy Termination Program, one fact stands out. Supply management in the dairy industry can and will work. Given the opportunity, dairymen will participate in a voluntary program.

In fiscal year 1984, the diversion program operated only 9 months, but cut Commodity Credit Corporation purchases by almost 40 percent, and cut costs to the Government by \$1 billion. As you are aware, 90 percent of the costs of that program were paid for by the dairymen themselves through assessments. As a result of the diversion program, milk production declined and farm income improved. Some in the administration have said the program did not work because of the heifer retentions and production buildup after the program. As those of you who worked on the bill can recall, the industry stressed the fact that it must be a minimum 24-month program, but because of the opposition from the administration and some in Congress, a 15-month program was the best we could achieve. So I would like to remind the critics of the diversion program that one of the major problems of the diversion program was a result of their short-sightedness, and not that of the dairy industry. We did the best that we could do working within their system.

In the case of the Dairy Termination Program, milk production is down and CCC purchases since the beginning of the marketing year, October 1, 1986, are almost 60 percent below the same period last year. Again, farm income improved as price increases reflected the improved supply-demand balance. As with the diversion program, producer assessments are meeting a major portion of the cost of the Dairy Termination Program.

Gains under both of these programs have been short-lived, because the basic problems that created the surplus situations in the first place still remain. They are basically that with cheap feed available and poor alternatives for capital in agriculture, dairying still has the best profit potential of anything in agriculture at this time. Because of this, the dairy industry has the potential to find itself in the same problems it faced in 1983 and 1985 of overproduction and increased Government expenditures on dairy products.

We now have the unique opportunity to implement some form of supply management at a time when production and demand are approaching acceptable levels. I'm not talking about a short-term fix to the situation of short-term production gains, but a long-term policy that can remain in place to keep production in line and trigger itself before the situation calls for drastic action. The goals of such a long-term policy should include a supply management element that is market oriented, voluntary, maintains farm income, controls Government costs, and balances supply and demand when necessary.

AMPI has long supported such a policy and is committed to working with others in the dairy industry, the Congress and the administration to develop the needed standby supply management authority. Our members have directed much time and attention toward a two-tier price program they feel will address the need. The operating mechanism of the two-tier price program is the price received for milk. When the program is in effect, a producer would receive two prices for milk. The full market price would be received for that portion needed to meet commercial needs while a reduced price would be received for excess marketings.

The person paying the farmer would monitor marketings against the producer's marketing history. A farmer reducing

marketing to commercial market needs would receive the full price on all marketings. Those marketing in excess of commercial market needs would have the price on excess marketings reduced by an amount the Secretary of Agriculture determines sufficient to meet a defined producer responsibility under the program. The funds represented by this price reduction would be remitted to the CCC.

The program is voluntary in that the producer would make the decision as to the production levels on the farm. It would involve all producers, either through reducing production or by contributing toward funding CCC purchases resulting from excess production.

In order for any voluntary supply management tool to work, I firmly believe it must be profit-motivated. As long as the last pound of milk is equal to the first pound, dairymen will not reduce production. However, make it more profitable to reduce production, and most dairymen will reduce.

The two-tier program would be implemented for any marketing year when USDA forecasts purchases to be greater than Government needs plus a reasonable reserve. For discussion purposes, a purchase level of 5 billion pounds has been used.

Prior to the beginning of the marketing year, the Secretary would determine the price support level using the National Milk Producers Federation developed dairy parity formula without the supply-demand or productivity adjusters and make estimates of marketings and commercial demand for the coming year. If this forecast projects CCC purchases in excess of the trigger level, the two-tier program would be implemented.

Once the program has been announced for a year, all producers would have their marketing history established through County ASCS offices. The Secretary would determine the price deduction needed on excess marketings to meet producer responsibility under the program.

Several safeguards would have to be built in for producer and consumer protection. The Secretary should have authority to increase marketings or to end the program entirely during the year, if necessary, to assure an adequate supply of milk nationally. To prevent the use of increased imports to offset production adjustments, the Government responsibility would be increased by the amount of any expansion of dairy product import quotas. Finally, a year-end reconciliation would be available to producers who had price deductions in one month offset by later marketing reductions.

I realize there are many program details to be dealt with, but they must be dealt with no matter what form of supply management is taken. The important point at this time is the overall concept. The two-tier price form of supply management does meet the criteria I previously mentioned.

It is market oriented. All income is received from the market. Government payments are avoided. Production decisions are based on market signals. It is voluntary. Each dairyman can choose his level of production and participation. It maintains farm income. Producers have added tools to assist in tailoring production to market needs. The individual farmer has the ability to determine production levels.

It controls Government costs. A cap is placed on the cost of the price support program. The burden of meeting price support costs over a specific level is placed on those increasing or maintaining production at levels in excess of market needs. It provides an effective standby supply balancing mechanism.

As a temporary program, it would not be used once the needed supply-demand balance is achieved. It would remove the uncertainty surrounding dairy policy, allowing producers to more efficiently plan operations.

I want to thank you for the opportunity of being allowed to present my views here. In listening to earlier testimony, I had jotted down a couple of things I wasn't going to mention, but being they were brought up, I'd like to address them.

There's been a lot of talk about the free market system and our Government support system, and I basically cannot understand how, with the situation we have today, we can talk about those two in the same breath. I don't think the system we have now can be considered by any means a free market system when we've got 5 and 10 percent of the milk being produced, for which the Government is the buyer. In a two-tier price system, if the regular market, commercial market is at 95 percent use and we have a 5 percent surplus, it seems to me that a free market system would allow you to reduce your marketing by 5 percent and produce for the commercial market, and then you can produce over that 95 percent anything you want for the world market, and the world market price of \$4. To me that is closer to a free market system than what we have today where you produce it and the Government buys it.

The other thing I'd like to address specifically is the talk about bases and histories or quotas or whatever you want to call them. I think there's certain criteria that I think are imperative and must be met in order to keep the industry viable if we go to this type of plan. I think number one, these have to be transferable. I think if things do not transfer, I think basically we have an industry that is going to be stagnated. I don't think you ever stand still. You either go forward or you go backward.

In the transferring of these histories, I think it's also imperative that they be reduced upon transfer. Jim Loper lived through the system that we developed in New Mexico. Every time our history transfers, 20 percent of it disappears. Something like this could be incorporated in the national base deal where 20 or 30 percent reverts back and would be there for distribution among everyone when supply management is closer in line.

With those thoughts, I appreciate the opportunity of being here and I'll be glad to answer any questions.

Mr. Knolle: Thank you, Wayne. Are there any questions? Thank you very much. That was very detailed.

Next we have Mr. Maclin from Memphis, Tennessee.

Mr. Maclin: Gentlemen, you ought to be complimented for serving on this Committee. Two hundred years ago another Committee met and wrote the Constitution of our United States. What you do in writing some dairy legislation for the Congress to adopt will possibly have as far reaching effect

on the dairymen of the United States and the consumers of the United States as the Constitution has. I hope and pray it does. You have my statement.

I'm Lance Maclin, a long-time dairy farmer from Tennessee. I'm not ashamed of being a farmer. Gentlemen, are you ashamed of being a farmer?

American farmers have had many accomplishments. The Minutemen were farmers. The signers of the Declaration of Independence were mostly farmers. The writers of the Constitution were mostly farmers. The Pony Express riders were farm boys. Many of the soldiers of World War I and II were farm boys. These were wars in which we were proud to be Americans.

The Industrial Revolutions of the 1920's, 1930's and 1940's were manned by farm men and women. America led the world in industrial production. Contrast this with today when there are few farm people to go to town. Industry has moved to foreign soils because of the nonproductivity of the American workers. This is certainly not true of the American farmer.

We have fed the American people the best and most nutritional diet of any Nation since the Garden of Eden. Proof positive of the excellent diet of the American people is that many of the younger generation of men are several inches taller than their fathers. There is no populated area in the United States where you can't today buy fresh meats, fresh milk, fresh fruits and vegetables, and this, every day of the year. Not only this, but we have fed the hungry world.

Don't think for a moment that I'm not proud to be an American. We still have the greatest country in the world, but we've got to work to keep it that way. Again, I'm not ashamed to be an American farmer, but I am ashamed that we, as dairy leaders, have not been able to better enhance dairymen's income.

Over the past 40 years, 90 percent or more of the studies on breeding, feeding, housing, and all phases of dairying have been to increase production per cow, per worker, per farm, with an infinitesimal small amount of studies made on marketing and producing a product acceptable to consumers. This has caused overproduction and, therefore, reduction in price to the point that a recent USDA Farm Cost and Return Survey shows that over 45 percent of U.S. dairy farmers have a negative cash income.

Our operation began as a cream/hog operation. Before I was mature enough to be involved in decisionmaking, I remember the debates as to where we would sell. We had four options:

Local markets, 6 miles. We took what price and test they gave.

Memphis market, 1 1/2 miles to the railroad, 40 miles to the Memphis market. Fair price. Good weights except when the conductor needed butter. Low shipping charges.

Nashville market, 1 1/2 miles to the railroad, 180 miles to Nashville. Good prices. Good weights. Medium shipping charge.

Louisville, Kentucky, 1 1/2 miles to railroad, 300 miles to Louisville, Kentucky. Excellent price. Good weights. Some

higher shipping charges. Here our check stub was often stamped premium or sweet cream, for which we were made premium prices.

Which market would you have chosen?

In the mid-1940's we started marketing whole milk through Mid-South Milk Producers Association, where I first served as a liaison person from our group and later as a director. Mid-South was under a Federal Order and had a strict quota plan. Because we, as a group, brought sales with us when we joined Mid-South, we were allotted quota on our past history. The quota system worked so well that Mid-South had about 90 percent Class I sales, and therefore, we had very little surplus milk. Later we joined MPI. I was in on the organization of MPI and had worked with AMPI in various capacities. I have been a Director of the Mid-South Division and have served on the Resolution Committee in various capacities.

Let me say in the beginning that I think the Federal Order System and the price support system have been a great help to the American dairy farmer, but we have taken advantage of the price support system by overproducing.

I would like to suggest a self-help plan that would take the burden off the Government and, at the same time, enhance the income of dairy farmers. Any future program should be a national, permanent, self-help farmer-controlled program that continues and perpetuates the Federal Order System.

Gentlemen, are dairymen suffering from overproduction or underconsumption? All of the proposals concerning milk bases, quotas, allocations and so forth that I've read about or heard about, only have one objective: Cut milk production.

I would like to propose a plan that would attack the enemy of too much milk both front and rear, with flank attacks also.

You'll notice the heading on each page is "Milk Marketing, Producing for a Market," and that is the theme of my presentation. Here is the proposal. I'll read through it and then comment.

Each dairy producer in the contiguous United States be given an allocation, using the last 5 years' production history, adjusted in hardship cases and for new producers, diminished by the percent of total milk sold to Commodity Credit Corporation nationally the past year—this program to be governed by a board consisting of 90-percent milk producers and 10-percent non-voting Milk Marketing Experts and administered through the Federal Milk Marketing Orders.

All production over each producers' allocation would be "taxed" at a rate per cwt. set by the Board, with all monies going to the National Dairy Promotion and Research Board. All allocations would be adjusted annually, using each producers' immediate past year's production, along with the 4 previous years, and also consider the amount of milk shipped to Commodity Credit Corporation from each Federal Order Area. All sales of allocations, bases, or quotas would be handled by the Board.

Spring flush production could be "taxed" at a higher rate to help control excess spring production. This would also be an

opportune time to establish premium payments for quality milk to help increase sales.

To get this type of legislation passed in Washington, we would possibly have to give more consideration to family farms than to commercial dairies.

Now, Congressman Stenholm, when he spoke to us at our AMPI meeting this year, made the statement that he would favor a two-tier price program with the ones that overproduced bearing the burden of overproduction. This program is along those lines where the man that overproduced would have to put money into selling what he had overproduced. This would get this milk off the market. This would establish later sales of milk. We would be building instead of just holding on. This plan would be no cost to the Government except some Federal Order costs.

Now, down the last paragraph concerning family farm. What is a family farm? My idea of a family farm is where people have no set salaries—the individuals that work there have no set salaries. It's a family-owned operation. They take what they get, what they net out. They have no set work hours. They work until the job is done. And to me, that's a family operation.

It's hard to put a legal definition on it, but you all know what a family farm is. You've got to experience it to know it. You may have to go from 4 a.m. until 8 p.m. or 10 p.m. or later at night. If you have a breakdown, you've got to do it. That's a family operation. When you don't really count what you're going to get out of it, you just love to be doing it and you're doing it because you love it.

Okay. Now, each billion pounds of milk that went into Commodity Credit under the prepaid plan, would produce \$20 million for promotions. Five billion pounds would produce \$100 million, which should sell a lot of milk. Over a period of years adjusting allocations annually should help each market supply its own needs. If it was adjusted for that farmer's production annually, using his past 4 years, if it was adjusted using what milk from that area that had to go into the Commodity Credit Corporation annually, pretty soon, in 5 years' time, the market would pretty well be balanced. That area would be producing the milk that that area needed. We would be producing for a market. I quit there. I'll answer any questions you might have.

Mr. Knolle: Thank you very much. You have a good proposal that shows a lot of work. We have a couple of questions. Bob Foster.

Mr. Foster: You had indicated that there might be some room for quality premiums. Would you see those coming out of the monies that might be taxed?

Mr. MacIlin: I hadn't envisioned it that way. You've got to do what you can when you get up there working with Washington. You've got to take the ideas everybody presents. I hadn't envisioned it that way. But since the man made the talk on beef today, we might have to kick in a little in beef promotions if we went this "tax" route. We might want to keep that good relationship with them by kicking in—you don't agree. Some don't. But that's just a thing I had thought when he spoke, if we kicked in 10 percent to them, get them with us instead of against us.

And there was another question, I believe.

Mr. Mertens: The cattlemen have to be willing to be courted before you're going to get anywhere with them.

Mr. Maclin: Maybe we can send them flowers, candy.

Mr. Mertens: On the third line of page 3, you state, "... diminished by the percent of the total milk sold to CCC nationally the past year." Are you addressing that to individual plans or regions?

Mr. Maclin: I think—my personal thinking, first, we've all had the chance to overproduce on this. It's all our problem that we've got overproduction. I think at first it would have to be nationwide across the board in everybody's allocation. It would be adjusted over the years as we use these factors into it.

Mr. Mertens: You're talking about doing it on a national basis. I was thinking you were referring to a regional and hopefully an individual plan basis.

Mr. Maclin: Well, I don't think you can get that through Congress.

Mr. Mertens: It would have been interesting.

Mr. Maclin: It would be interesting. But I would like to see it that way. I'll admit that we in the southeast—see, I'm in the southeast, and we're a deficit market. I would like to see it, but I think I've got to take my responsibilities for the overproduction we've got. Although I haven't overproduced, I think I've got to take my responsibilities for it, because it was available; and I could have overproduced and gotten the same benefits that the other people did. But I think it needs to be adjusted in the future. Sir, did that get your questions?

Mr. Mertens: Yes.

Mr. Knolle: Are there any other questions? We thank you very much. You're a very good speaker.

Mr. Maclin: I appreciate that. I'm dedicating my life to farmers when I can get away from the farm; to help all farmers.

Mr. Knolle: We appreciate it. Thank you very much. That's the last one. Is there anybody else that would like to testify? If not, thank you for coming. We'll bring the hearing to a conclusion.

**The Following is Written Testimony
Submitted to the Commission**

**Statement of Chariss Beckendorf
Tomball, Texas**

I feel that the Dairy Price Support Program is an important part of the dairy industry and should not be abandoned. It insures an adequate supply at a reasonable price to the consumer. I also feel that a mandatory supply management program, based on regional production patterns, should be considered in any future dairy legislation.

Casein is also a major problem that we face. All imports of casein should be taken into consideration, before penalizing U.S. dairy farmers for overproduction.

I also feel that as long as we have a favorable milk-feed price ratio, we will have overproduction in Texas. Agriculture is interdependent on each other. We must have a strong policy for each and every segment of agriculture. Thank you for your time spent and your commitment to a strong dairy industry.

**Statement of Loretta Parish
Bee Branch, Arkansas**

By the time I found out you were going to be in Arlington July 15, it was too late for me to attend your meeting on dairy policy. Although I'm very interested in the political side of the dairy business, as a producer, I'm much too busy to actually get involved in it. However, I would like to share my opinion on a couple of things with you and hopefully get some answers on questions I have. First of all I'd like to answer a question I believe you ask of dairymen, "Do you plan herd expansion?" My answer is yes. I know that isn't helping the nation's milk surplus but in my opinion, with the prices to dairy farmers being lowered, we don't have a choice. Like everyone else we want more for our children than we had for ourselves. As it is we'll be lucky if we can give our children what we had. Is it wrong to want a nice home and an education for our children? In so many dairy magazines I see the words "Price cutting is no solution," as quoted by Ira Rutherford in *Dairymen's Digest*. Who do we have to convince of this? How do we do it? When prices are cut we have to increase production to maintain what we already have. *If prices were left alone or even raised so we could get by on what we're producing now we wouldn't have the great need to expand.*

Secondly, I believe to stop milk surplus we must stop accepting new dairy memberships. I know this sounds cruel and unfair to people who want to make dairy business their life as we do. But what's fair about letting someone into a business where there's already a surplus. If I was working in a factory, as I once did, (a shoe factory) where we were making more product than we were selling, I'd be laid off and they certainly wouldn't be hiring new hands. What good is it to have a Dairy Termination Program if new members are replacing the ones who went on the whole herd sellout program? Here in Arkansas the chicken business seems to

be on an uphill rise but if you're not already operating chicken houses you can't get in. If someone else sells you their house and contract, fine. But at this writing they're not financing newcomers. I think the same should be true in the dairy business until the surplus is down and demand is up.

Last but not least is the price consumers are paying for milk products. Someone in the middle is getting rich on milk products. If there is such a surplus, why not lower the prices. If a store buys too many coats for the winter, in the spring they put them on sale to get rid of them. Many people haven't even tried some dairy products because of the price. They go for imitation because it's cheaper. While there is a surplus, why not get those prices down within competitive reach. Let people taste true dairy goodness. Once they get used to it, they won't want to go back . . . Then if prices go back up (because of a milk shortage) maybe they'll be willing to pay the difference because they've experienced the difference.

To sum up my opinions: (1) if you can't raise the milk prices to dairy farmers—leave it alone. Lowering it will only cause us to try to produce more; (2) if you're going to kill whole herds of long-time dairy farmers to reduce the milk surplus, don't offset it by letting in new members; and (3) lower the price consumers are having to pay for dairy products and they may well drink up the surplus.

Springfield, Missouri
July 15, 1987
Hilton Inn
9:00 A.M.

Mr. Chairman: Good morning. Anyone in the audience that is not scheduled to testify and desires to do so, if you would leave your name with Mary Kaems, we will give you that opportunity. Before we get started with our first witness we want to recognize in the audience today the special assistant to Senator Christopher S. Bond, Sally Dinka, and Richard Struckhoff, who is a special assistant to Senator Danforth.

Our first witness today is Gary Hanman of Mid-America Dairymen.

Mr. Hanman: Thank you, Mr. Chairman, good morning, members of the panel.

Mr. Chairman: Good morning.

Mr. Hanman: It is a pleasure to be here. I appreciate the opportunity to appear before you as a witness to give some views of Mid-America Dairymen on the dairy situation and specifically the policies, government policies as it relates to dairymen. We are going to hear from several Mid-Am members this morning during the hearing. You will find that we have members to testify before the Commission from Arkansas, Illinois, Iowa, Nebraska and Missouri so we intend to give you a fairly broad geographic field for dairymen in this area as to their attitudes toward government policies and economics. I think you will generally find as you summarize or get a feel for the aggregate of their testimony that they think the present government programs have worked fairly well, not to say that they have been perfect, they may need some fine tuning but generally the attitude is that the 1949 Act has worked fairly well. We would like to keep it as far as buying surplus commodities, and redistribution of those commodities back to the market. They think that part works well as opposed to some alternative plan. The 1937 act authorizing the Federal milk marketing orders they feel is still appropriate. We can probably do with some more flexibility as far as the administration of those orders are concerned, but certainly we don't want to give up that authority.

I think you will hear from them that Section 22 under the 1949 Act gives us our import protection, and we need to subsidize the product off shore as other countries do. We need to make sure we keep the import protection. We need above all the Capper-Votstead Act that authorizes cooperatives. I think you will see support for that legislation and the whole area and interdependencies of regulations as it relates to international trade, interstate commerce, the protection of consumers, as a result of these witnesses.

I have, I think each one of you has a copy of, some prepared remarks that I wanted to make but rather than read them I would like to direct the Commission's attention to the summary on the back. We are in the process, at Mid-America Dairymen, of conducting a series of member information meetings throughout Mid-Am land as we call it. We have had meetings in, for example, Minnesota, Wisconsin, in the

Dakotas, back in Nebraska, in Western Iowa, and Kansas and at these meetings we have been handing out the questionnaire you see before you obviously in blank form and asking for members' response to the questions contained here and what you see are the summary of the responses of our members. Roughly 400 questionnaires have been completed to date. If the Commission would like, Mr. Chairman, we will give you later a completed summary of this questionnaire after we finish all of our meetings. We have more meetings scheduled in Kansas and Missouri and Arkansas and Texas and when we get through we will have an analysis of the attitude of Mid-Am generally posed.

Mr. Chairman: That will be very helpful.

Mr. Hanman: We will do that if you would like. What we have presently are the results of about 400 individually completed questionnaires and the first question has to do with if we need some new type of legislation, what kind would you favor and you can see the response that we got. They don't like price cuts, they don't like droughts, they don't like grasshoppers, they don't like hailstorms and they don't like price cuts. They have some support for the Canadian quota system but if you notice, the paid diversion, the one we had 3 years ago, 4 years ago, the whole herd buyout, the one that we're in presently, as well as a two-tier price, which is being kicked around in some circles in various policy areas, you notice all three of those voluntary type supply-management programs get a majority of the support. Three-fourths of them, three out of four of our members like voluntary supply management. So basically what they are saying to us is if we have to make some adjustments in supply give us the tools to do that and the incentive to do that, don't do it through price. If you add those three items you will come up with paid diversion, whole herd and two tier at 74.4 percent and that's been fairly consistent in all of our regions. Three-fourths of our members want voluntary supply management as opposed to a compulsory supply management or the Canadian plan or the price cut.

The second question we wanted to know and there has been a lot of discussion in the various circles relative to assessment, farmers hate assessment so we asked them, if you had to make a choice and you have to make a contribution towards the budgetary problems, would you rather do that through price cuts or through assessments? Surprisingly, 70 percent of our members, 71 percent of them understand that the assessment route is preferred as least expensive, the least costly to price cuts and I was surprised I guess at that but pleased at the intelligence of the members.

The third question has to do with long-term supply response. What presently are our members thinking about next year on milk supply, and if you look down through there you will see that only about 3 percent of them plan either—plan to decrease, about 3 percent. That's 1.6 percent are

going to sell out, 1.6 percent are going to decrease. 48% are going to stay the same based on present plan. No change in their outlook but then if you add up the next three categories, the ones who plan to increase, all the way from 1 percent up to more than 10, 48 percent of our members plan to increase their output in 1988. Then we asked them what would you do or how would you change those plans if prices were reduced, looking at a 25-cent per hundred-weight reduction in price supports in October, looking at a potential 50-cent cut in support in January, 75-cent reduction in price support, what would you do? Well, you get a slight increase in sell out, not much, not much change in those that want to decrease, maybe 3 percent compared to 2 percent. The general area of no change is about the same, 48 versus 41 but if you add up the last three, the ones that will increase, you will see that goes from about 48 percent to 53 percent which means to me, as an economist, that dairy farmers realize that if you cut their price they have got to produce more to maintain cash flow. And that's what really, if there is a message in question number four it says, I think, that we will get at least in the short run more milk supply, more milk output by cutting prices than we would by maintaining prices as question number three but both of them said we're looking at increased production.

The fifth question we threw in there just for our guidance really and I thought you might find it interesting. We asked dairy farmers, 400 at this point in time, what do you think is the biggest problem you face on your dairy farm? Imports got a big majority of the vote, low milk prices and you can add that in with the cost of production, that all ties in to the costs that they incur. The other side of the costs are the prices they receive in the marketplace, low milk prices got the most. Interest rates, that's cost of production but imitations got some votes; the government involvement and marketing got some votes. We heard several members talk about large producing units coming in, new units coming into the business, that probably ties into the first question on the two-tier price. We will share, Mr. Chairman, the completed questionnaire after we get through with our series of member meetings which will be final in about a month and so we can give you a general feel for Mid-Am attitudes relative to government policy, but I think if you read that in total you'll see that our farmers generally don't like cuts, they like voluntary supply management, they want some government involvement but they probably want less government dictation than they have had in the past, they would like the government to be more of a referee than a price setter.

Thank you very much for allowing me to testify.

Mr. Chairman: Thank you. Are there any questions?

Mr. Williams: Gary, I have a question. You stated that most people favor the price support program under the 1949 Act. Some of them express a desire to see a price index added to the act. Do you think that if we monkey with it we would be in danger of losing it?

Mr. Hanman: No, I don't, Charlie, I don't think we will lose the act if we try to amend it. That's been the fear and apprehension I think of several of us through the years that we don't want to tinker with this program or the 1937 act that

authorizes Federal milk orders, or the one dealing with advertising and promotion because we will either lose the act or we will get an amendment we don't like. I don't buy that. I think if the proposal that we bring forth has got good basic economic justification or its initiation is an improvement over where you are, I think we can sell it. I think the law reasonably will prevail and generally that's our biggest problem in the dairy industry in going to Congress and trying to get new legislation has not been convincing Congress of the merits of our proposal, it's been getting all of us dairy farmers together behind a single proposal—

Mr. Williams: True.

Mr. Hanman: —but if you look over our shoulder anytime we have come together in the industry, the dairy farmers together, we can get what we want.

Mr. Williams: Thank you.

Mr. Camerio: Gary, I am really surprised that you cover such a broad area of the country. I have never seen from this area of the country this kind of interest in voluntary supply management. That's a big number, 74 percent in favor of voluntary supply management.

Mr. Hanman: Yes, it is.

Mr. Camerio: The biggest number in that 74 percent favor a two-tier price type of voluntary program. Can you give a little background on the two-tier price program?

Mr. Hanman: Yes, thank you for asking because when you present this questionnaire somebody has to explain what you mean by the question and therefore you get probably some biases from the podium and I will admit there may be some here. The two-tier price that was explained to the members that got this affirmative vote was one that triggered in and triggered out based on need, and need was measured by a 5 billion pound milk equivalent CCC purchase so if it looked like we were going to get more than 5 billion, we would trigger in a two-tier price. The two-tier price mechanism that was explained was taking the domestic market, whatever size that is, however big we can grow it with our advertising and promotion and marketability program, which is currently about 137 billion pounds. After that domestic market and 5 billion pounds that we think is taxpayer's responsibility and dividing that market up among the existing producers, dairy farmers in the country using some historical basis of division so each producer then has his share of that domestic market. Then if he individually wants to make changes, either by reducing the output that he is going to have from his farm to stay within his share of that market or if he wants to expand he can, there is nothing in the act that would preclude him or the plan from expansion, but when he expands he expands at a significantly lower price and the example we are using is a world market price, a surplus disposition type price. It would probably be slightly higher or be higher than the Canadian quota system, but it would be a world market price and he would continue to produce in excess of his share of the domestic market at that lower level until the industry got back in the supply and demand balance. It would be partially funded by the dairy farmers themselves, either by an assessment as we have the last two plans or by lowering the excess price enough to

cover the cost of the program. Then I think most people, most of our members would realize you can fund it either way and as question number two says I don't think our members would object if the plan worked to funding it through an assessment. Now if you are just going to assess them for no apparent industrywide need, I think they would raise up and object but if the program had merit, if you were able to tell them that you need an assessment to pay our share to make the plan work, they would support it. The two-tier price then would not have bases as such. The bases would not be negotiable, you couldn't buy them or sell them, they would have no value. They would not acquire value because of the reason of their tenuous nature. You wouldn't know whether you were going to have one or not have one next year, depending on what the industry supply and demand balance, and that was basically the plan that was presented when they voted this 40 percent in favor of two-tier pricing.

Mr. Camerio: Let me ask one other question, Gary. You mention a trigger mechanism based on some 5 billion pounds triggered by the USDA or the Secretary. Would that be mandated?

Mr. Hanman: Yes, it would be mandated, if he projected, Tom, if he was going, if the Commodity Credit Corporation was going to acquire stock in excess of this 5 billion reserve supply that we need he would have to put in a two-tier price, he would have to initiate one. That would be the way to send the signal to the dairy industry to slow down on that output until sales caught up.

Mr. Chairman: In using world market prices as a second tier price, would you still consider that a voluntary program?

Mr. Hanman: Yes, I would, as opposed to a, say, Canadian quota plan. In some cases the degree of severity of price on oversupply does not make it voluntary, plus a two-tier price being voluntary, by that I mean it triggers in and it triggers out whereas the quota plan never changes. Once you have a quota you live with it for a while and like the Canadian plan for example.

Mr. Chairman: One of the biggest, largest criticisms of the diversion program was that it was too short.

Mr. Hanman: Yes.

Mr. Chairman: It did get rid of production while it existed. If you have a two-tier pricing system that triggers in and triggers out, that sounds very short to me. Is it going to be making the necessary corrections?

Mr. Hanman: Okay, that's a good point, but I think there is a subtle difference that will be perceived as significant by the dairymen in that the first phase of diversion be put in for a 15-month period. Dairymen knew it had a limited life, they knew it was going to end at a certain time in the future definite so they could maintain in either feeding or in breeding for that small period of time to make their reductions that they contracted for. The same thing is true of the whole herd buyout, it had a life span definite at the end of a certain period of time, on August 31, it's done, it's dead, it's not going on. Now you take that type of a known termination as opposed to a two-tier price whose future is yet to be determined based on the industry performance and you won't,

you as an individual dairyman sitting here today would probably not be able to know whether that was going to trigger or not to trigger. Right now we are sitting here on the edge of our chair sweating out whether the Secretary is going to project 5 billion pounds of CCC purchases which would authorize this 50-cent cut January 1. We think that's going to be awful close to call. Now if you have a two-tier price and you were that close to an adequate supply demand balance that would be so close to call it would build in uncertainty within the pricing mechanism and it's the uncertainty problems, it's the uncertainty that will give the plan duration, it will continue on, even though the two-tier price will trigger in and trigger out based on supply and demand. Its authorization would not terminate so you might have it this year, might not have it next but you might have it a third year and it might continue a fourth year and then trigger out the fifth year. It seems to me there is a big difference between that and the other two types of voluntary supply management programs we have had before.

Mr. Chairman: The other side of the standby along with the current purchase-type program is obviously a supported price.

Mr. Hanman: Yes.

Mr. Chairman: Do we build a mechanism to develop that price with price attempts to control supply-demand or do we forget about it and depend upon the standby authority of the controlled production?

Mr. Hanman: I would, if I were developing a plan, Mr. Chairman, I would let the two-tier price do the supply adjusting and I would build in the price mechanism as an economic safety net to maintain income to farmers for stability of prices to consumers. Let's not forget the other side of this whole 1949 act. We are farmers, we are looking at it from a farmer's perspective, we think in terms of what will it do for me in price but the flip side of that is, consumers, and it gives tremendous stability in dairy prices to consumers, milk, being perishable. Slight changes in supply will cause big changes in price, that's not in the consumers' best interests, that's not really in our interests so we have, on the one hand, on the demand side, we have a mechanism wherein prices will vary significantly, violently if you please, with small changes in supply, and on the supply side we have a long-term industry that you don't get in and get out of so we need stability on the production side and the consumers want stable prices on the other. The 1949 Act does that and the only time that we have gotten into trouble on the 1949 Act, the buy/sell type program, is when we have got levels so high that it is triggered in on an annual basis for purchasing but for the last year, 1986, and our projections for 1987, say while CCC purchased product in the flush it will liquidate those inventories in the fall and that's the way the plan was designed to work and we think it's working.

Mr. Chairman: At a hearing yesterday in Denver, a processor was saying he also wanted stable prices in 1981, 1982, and 1983. When the support price was the price year round, we had very stable prices.

Mr. Hanman: That's right.

Mr. Chairman: But we weren't in a very healthy situation for the purchasers.

Mr. Hanman: We were healthy in the short term, sir, but in the long term we might have been borrowing from our future but here again, what we had was that 1980 percent of parity program adjusted semiannually. We had no uncertainty in it, everybody knew it was going to go up, everybody knew what the level was so on the production side of our industry with that degree of stability and with that escalation, with that known escalation in return we put a lot of people in dairying; the bankers helped us if you please because of that stability factor. Now you build in some instability, you build in some unknown future and you won't have the credit sources pushing people in the dairy business. That's what the two-tier pricing will do to you that we didn't have in the 1980's.

Mr. Chairman: Are there any more questions? Mr. Shade?

Mr. Shade: Gary, this is really the only hearing in the Mississippi Valley. We had one at Hudson up in the upper regions and the majority of your producers are in this area.

Mr. Hanman: Yes.

Mr. Shade: We observed the TK program and how it operates and their participation. I am not sure of the exact percentage of voluntary participation in the present program, which is predominantly in the Midwest corn and soybean market, but as I recall it's close to 85 percent.

Mr. Hanman: Very high.

Mr. Shade: And this is strictly voluntary. Now referring to supply management, you speak of the two-tier price and your interest in the voluntary choice of producers. Under that program there is a mandatory element involved in which the domestic market is in effect divided so that part is mandatory. It has a different aspect than we are experiencing in the strictly voluntary feed grain program. I wonder if we all understand and accept that mandatory feature in the two-tier program. We are so used to having the choice to participate or not to participate in the feed grain program.

Mr. Hanman: What you might do, Dick, as we dairy farmers testify before your Commission this morning, you might ask them that question as to how do they feel, you know, about the voluntary nature of either the paid diversion, the whole herd, or the two tier and those three are basically the same. The way the acts are different. I would like obviously to see the duration involved on the two-tier price if we go that way, I'm not sure where the industry is headed. You might ask them that question, but I think the average dairyman does understand that as production in total goes up and as that increased supply becomes a burden for government and government expenditures, and most of them understand that, they know sooner or later there is going to come a day of reckoning and so if that's the rationale they believe, and I do believe they understand that much, then they don't want to be held responsible for somebody else's expansion at their expense when they have exercised good prudence as far as expansion and producing beyond the market needs. I think that's pretty well perceived but you might ask the people before the Commission. I think the people that filled this questionnaire out, I believe we got that message across.

Mr. Shade: Well, there isn't a big difference but there is a difference.

Mr. Hanman: There is a slight difference, that's right, and on the one hand the government, the feed grain issue is the thing we are trying to hold down on government costs, we are going to do that by limiting participation. In this plan we are going to hold down basically some of the cost by putting some of that cost back on individual dairy farmers who choose to expand but don't put that burden on those farmers that do not choose to expand. Thank you, Mr. Chairman.

Mr. Chairman: One last question, Gary. The two-tier pricing program is based on pounds produced. If a person decides to go out of business and somebody decides to buy his production, that's an expansion of an individual and not an expansion of total supply. Would that be allowed under the two-tier pricing program?

Mr. Hanman: Don't know yet, Mr. Chairman, you are getting down to the specifics and of course a lot of time that's where these types of plans lose support when you get into talking about those individual issues. I would guess that at least we would start with your analysis, saying that that base goes back to the industry and is to be divided pro rata among everybody that's there, they have got production rights if you leave. If it's not negotiable and if it's not a right that can be bought and sold, it's automatically forfeited; therefore, that production volume or his share of the domestic market is divided up among everybody else and if you have got a new entry into the business, a new producer, he has to come in like a new producer and if he chooses to enter the business during the period of time the industry doesn't need him, he is going to enter at a competitive disadvantage. If the industry needs him, meaning that we are under the 5 billion pounds and we are projecting a need for an additional milk supply, he would not have a penalty. In fact, the signals would be to new entries, come on in, we need you or expand for existing producers but if he chose to enter when we don't need the production the average, the majority of the producers in the country say we shouldn't even encourage them to come in if we don't need them.

Mr. Chairman: Thank you.

Mr. Hanman: Thank you, sir, appreciate it.

Mr. Chairman: Our next witness is Jimmy Davis, dairy farmer from Arkansas.

Mr. Davis: Good morning, Mr. Chairman, members of the Commission. My name is Jimmy Davis and I am from Green Forest, Arkansas, and I thank you for the opportunity to come here today and try to explain some of my views on the dairy policy. I think you have copies of my prepared talk and I will try not to read it. I didn't know I was going to have to follow Gary Hanman.

I believe that the future government policies of the dairy industry must include the price support program as well as the Federal Milk Marketing Order Program. Although the dairy industry has changed considerably since the inception of these programs, the industry continues to need the stability and the marketing efficiencies that these programs provide. At the same time; I recognize that the changes in the

dairy industry have and may continue to require that certain adjustments be made to these programs. As long as the basic objectives of these programs are maintained and reached, these programs will continue to be an integral part of the dairy industry in the United States.

The objective of the Price Support Program is to support the price of milk at a level that will assure an adequate supply of milk to meet current needs. The main purpose of the Federal Milk Marketing Orders is to stabilize milk markets through eliminating those attributes of unregulated markets which cause instability and chaos. As can be seen through these objectives, the cornerstone objective of both programs is stability.

Stability in the dairy industry not only benefits dairy farmers, but I believe it also benefits the American consumer and taxpayer. In fact, it is possibly inaccurate to refer to government policy and the Federal Milk Marketing Programs to be strictly farm programs. As can be seen from the objectives that I just mentioned, both programs' objectives include meeting the needs of consumers. This can best be illustrated particularly by a look at retail prices for all food products in relation to dairy products. All other food products have increased about 26 percent, and dairy products have only increased by about 14 percent. There are those who would say that a reduction in support prices or an alteration in support prices would lower consumer prices. That may be so in the short term although in the long term I don't believe it would be helpful at all. Although this might be true in the short term, the stability provided by the price support program has allowed for relatively low consumer prices in the dairy products. Decreased price supports or an elimination of the program would force out many dairy producers and reduce production to the degree that retail prices could go higher. If price supports are cut enough that the current surplus situation is corrected and the CCC releases its existing stock, then milk prices would increase in seasonal and annual fluctuations. This tight supply situation would lead to very low farm level prices in some years and tight supplies and high consumer prices in other years.

Prices to consumers are lower in the long run due to the Price Support Program.

The Food Security Act of 1985 contains provisions for more price support cuts. The cuts already implemented have had the effect of tightening supplies in relation to demand and are causing an increased variability in prices. A review of the M-W milk prices over the last several years shows that the M-W prices ranged only about 50 cents from the high to the low. In recent years, the difference between the high M-W prices for the year and the low has ranged almost a dollar. If the price supports are dropped even more, I believe this variance would decrease even more. Since dairy product consumption has been increasing at about the rate of 3 percent per year over the last 3 to 4 years, a continued decrease in milk production capacity could lead to an extended period of shortages. Since milk production is slow to adjust for increasing production as well as for decreased production, if excessive numbers of dairy farmers are driven out of production, this could lead to tight supplies that could later lead to a sizable up run in prices in the next expansion cycle of milk production. When the high investment and

long-term commitment needed in milk production is considered, farmers would not take the risk unless price expectations were higher than they would be without a support program or with reduced support prices. Although consumers might benefit from lower prices during periods of surplus production, they would be faced with rapidly rising prices during the low ebb of the production cycle. Lower farm prices usually don't decrease consumer prices. Instability would increase consumer prices.

The current level of milk price support programs would be sufficiently low to cause extensive exiting of dairymen and decrease in milk production were it not for the costs of production due to the lower price of feed. If programs currently in place that are aimed at correcting the surpluses of grain commodities are successful and reduce these surpluses, then the prices of these commodities and thus the cost of production of milk would increase. If this happens without a corresponding realization in the Dairy Price Support Program, we could see dramatic downturns in milk production that could lead to the scenario I have just described. There are many, including the Food and Agricultural Research Institute, that seem to indicate this improvement in grain commodity prices is foreseeable in the next year or two.

The relationship of milk prices to input cost, particularly feed, has allowed dairy farmers for the most part to continue milk production even with the lower support prices. An improvement in grain prices would drastically change that situation. I believe it is very important that dairy policy currently being considered and considered in the future not focus only on the present situation and present circumstances but rather consider the overall nature of agriculture as a whole. If dairy policymakers fail to see the relationships of dairy farming to the dairy farmers' other alternatives, they may not understand why a dairy farmer is continuing to produce, even though he is not doing so at very profitable levels. With other agricultural enterprises that the dairy farmer may be involved in, or the alternatives to current dairy operation, not profitable, many are forced to increase their production at lower prices in order to maintain their current level of income. Farmers not involved in dairying in the past are experiencing struggles in their own operations and commodities, and are adding resources to dairying because however bad dairying has been, many other alternatives have been worse in recent years.

The dairy surplus program (sic) as well as the overall problems of American agriculture needs to be addressed on the whole rather than in specific commodity prices. I believe it would be disastrous for dairy policymakers to dismantle long-standing price support and Federal order programs with worthwhile goals and workable methods for the sake of a short solution to the current problems facing the industry. It must be realized that these programs have worked well for over 30 years. Meanwhile, some adjustments have been necessary. These adjustments must be given time to succeed before being altered again. Current price support levels in the face of possibly increasing input feed costs will continue to have a depressing effect on milk production while at the same time the dairy farmers' efforts to increase consumption of his product will continue to lead to a better supply and demand balance. The Dairy Price Support Pro-

gram and Federal Market Orders were needed in the past, and are needed now and will continue to be necessary components of future dairy policy.

Mr. Chairman: Thank you. Are there any questions?

Mr. Camerilo: You make the statement, and I tend to agree with you, that current price supports are okay because feed costs have come down. You also state that if feed costs turn around, we will lose production unless the support price program is changed. Are you saying then that you don't believe that the marketplace can respond with a price to maintain sufficient production?

Mr. Davis: Well, I don't believe it would as long as we have an oversupply of dairy products.

Mr. Camerilo: Okay, but if we had an oversupply and the cost of production went up, would we need to increase the price of milk?

Mr. Davis: Well, I wouldn't say that we need to increase it as long as we have it but we do need the stability that the support programs bring.

Mr. Camerilo: But you are saying the support price should respond to the cost of production?

Mr. Davis: Yes, it should, yes, sir.

Mr. Chairman: Any other questions?

Mr. Camerilo: Just a followup. As I understood your answer, you are calling for more stability in the marketplace. For example, with shortages in the fall and surpluses in the spring, the level of price support would move up or down based on the cost of production so that those prices wouldn't fall out of bed when the government was buying.

Mr. Davis: Correct.

Mr. Chairman: In yesterday's testimony one interesting testimony came up. Would it be in our best interests as producers to devise a system which would financially benefit dairy farmers to even out their seasonal production, because right now we have too much milk in the spring or not enough in the fall?

Mr. Davis: Would it be to our best interests to level it out?

Mr. Chairman: Yes.

Mr. Davis: Yes, I believe it would.

Mr. Chairman: Could a program be developed to enhance that ability?

Mr. Davis: I believe the one that Gary was talking about would, the two-tier program.

Mr. Chairman: How do we get fewer cows freshening into the herds in the springtime and more freshening in the falltime so that we have a balanced production during a year?

Mr. Davis: Well, I assume that two-tier program would have some provisions in it that would cause us to want to level it out because you would have to produce at certain times of the year or lose part of your money.

Mr. Chairman: Are there any other questions? Thank you.

Mr. Chairman: Our next witness is Harlan Page.

Mr. Page: Mr. Chairman, members of the committee. Thank you for being here and it's an honor to be here before you. I would like to direct my remarks to the supply and management.

Now we have a tendency to think of the problems we have today are going to be with us forever. In 1980 the government purchased 8.8 billion pounds of milk. Three years later in 1983 it purchased 16.6, almost double. Now through some of the actions that have been taken through government programs and drastic measures we are now down to 10.6. This problem has not always been with us. If we look before 1980, the surplus was not a problem in the dairy industry. Between 1975 and 1980 the agriculture and the marketing of agricultural products were undergoing a tremendous change. Exports of grain were declining and the prices of cattle and hogs were going lower. Hogs went from a high between 1975 and 1980 went from \$46.60 to \$38. Hogs and cattle dropped from 48.50 to 32.20, but it has been brought out before in the hearings this morning that the dairy was locked in on 80 percent of parity and was going up continually. It went from a low in 1975 of \$8.75 per hundredweight to \$13.05 and our bankers were encouraging us to milk more cows. Dairying was a better alternative than any other segment of agriculture and all agriculture needs to be followed or we have an oversupply of some segment than another so really we need to not focus on the last 5 years or think this problem has been with us forever, and we as dairy farmers and policymakers we need to take considerable measures to correct the problem. And we have participated in the diversion program and recently in the whole herd termination. I participated in the diversion program at a 20-percent level. It seems like I had to sell about 35 percent of my cows to get to this level, and I culled, I really did get down to culling, my cows; my rolling herd average increased and really I made more money by milking less cows than I had before but, you know, we all are a little eager, we change. The dairy farmers have suffered considerably in the price support cuts that have been enacted in the last few years. Price support cuts have forced many out of business and have forced others to alter their way of doing business. I am on the division board of western operations of the Kansas City area and I also see the specifics from central states, which is Omaha, which includes Western Iowa, Nebraska and Kansas, which is, they have several alternatives to go into grain farming. We in this area have had more dairymen go out of the dairy business by sellouts than we have by buyouts.

I mentioned the success the dairy industry has realized through promotion of our own products. Policymakers should seriously consider policies that would assist in these efforts as well as benefiting the American consumer. While we are spending money and educating the consumer on the benefits of our real dairy products, fluid as well as manufactured products, labeling laws do not allow consumers an adequate opportunity to judge whether or not the products they are purchasing contain real dairy products. Consumers frequently are buying products assuming they contain real cheese when actually they may contain substantial amounts of substitutes. The fake cheese on frozen meat pizzas come to mind and the labeling of this. They are also purchasing

fluid milk products labeled as having a certain level of fat or solids where, in fact, those products may be below standards on labels. The consumer is the final person that judges our product when we put it on the grocery store shelf and the consumer is fat conscious. We need to change our labeling, our products to emphasize the solids in our products instead of, you know, 2 percent fat or 3.2 or skim, we need to make our emphasis on the solids. Over the years we have seen several programs, all addressing the same issue of the dairy surplus. We are now beginning to see the fruition of our efforts. Government surpluses are projected to be lower in 1987, and there is talk of lighter supply and possibly higher milk prices in the fall. Milk has already started being trailered out of the northern United States and the southeast part of the country I think two weeks or more earlier than last year, and the northeast part of the United States is saying there may be orders that go unfilled this year because of the shortage of milk so maybe this problem is really working its way out, that we don't need to organize, need to change too fast on something that is working. You know, sometimes we overreact.

Although there are many types of supply management, including mandatory production controls, two-tier prices or base-excess price, target price and deficiency payment programs, milk diversion plans, dairy termination programs and the last one, price, I believe that farmers first must agree on some of the basic principles that a plan should contain, then go after developing and adopting a program.

Yes, we need to be united in our thoughts. I hope we as the dairy industry don't wait until it becomes so desperate that we grasp it anyway. We, and you, as dairy leaders, we need to have a plan thought out, policy ready to go into effect before such a thing happens.

We have recently experienced supply management programs that were not tied directly to price support decreases. We should be able to build on experience. The paid diversion program worked and the whole herd buyout has worked. Production was cut, CCC stocks were cut, and government purchases were cut. If the steps that have already been taken fail to bring supply and demand into a better balance, I would support the current feeling of the National Milk Producers Federation, that if a plan is needed we should have a plan that would contain the following elements: (a) It would be a program designed so that bases would not acquire a value of their own; (b) The program should be used only in those years when surpluses are projected to be in excess. This would mean the program would come and go, triggered by projected levels of surpluses of dairy products; (c) Participation in the program by dairy farmers would be voluntary; (d) The program should be designed to discourage expansion, the level of government costs would be fixed, and the program would probably be funded partly by dairy farmers. I guess I should have gotten Gary Hanman before, we would have cut down a lot of time because I think he explained this very well in the beginning and you have the prepared text before me and I'm going to skip over a lot of that because I think Gary has explained that very well, but I would like for you to keep in mind the only supply reductions that have occurred over the last several years have occurred when some form of supply

management was implemented that provided individual incentives for producers to cut overall production. That individual dairy producer incentive needs to be present in order to effectively manage the milk supply. The dairy industry cannot stand any more big price cuts. I am a member of the Kansas Farm Management Association. My fieldman visits my farm, oh, three times a year. This year when he came in May we analyzed the dairy enterprise. My production on my farm last year, my rolling herd average was 18,000, a little over 18,000, 18,100 pounds. The gross income per cow was \$2,226. My feed costs were \$1,073. Now the variable costs that were put in there, you know, to include taxes, interest, the vet and utilities and labor was \$472 per cow. That left a return of \$681 per cow. If you figure a 50-cent per hundred-weight cut in the price of milk my return is 13 percent less per cow. A 50-cent cut is 13 percent less per cow for \$91 per cow less per year and the dairy industry cannot afford to have this drastic cut.

Thank you for letting me appear before you. Are there any questions?

Mr. Chairman: Thank you. Tom Camerio.

Mr. Camerio: What was the feed cost part of it?

Mr. Page: The feed cost was \$1,073 and the variable was \$472.

Mr. Camerio: Okay.

Mr. Page: Left a return of \$681 for the bottom line of \$681.

Mr. Camerio: Thank you.

Mr. Page: Any other questions?

Mr. Chairman: In the beginning of your testimony, Harlan, you mentioned that the current problem of buying the surplus was not always present. Prior to 1980 we averaged 3.6 billion pounds, which is an acceptable level. I think what you said was that the current type of program works.

Mr. Page: Right.

Mr. Chairman: From 1949 through 1980 it worked and worked very well, and the only thing the program had was discretionary powers with the Secretary to increase or decrease the price.

Mr. Page: Mm-hmm.

Mr. Chairman: Are you saying the industry has so changed today that the discretionary power of the Secretary to change support price based on CCC purchases is no longer sufficient?

Mr. Page: The reason why I feel, the reason why it worked before, other segments of agriculture were making money, too many people got into the dairy business. We oversupplied for the demand. Our advertising promotion, 3 percent per year increase in consumption, is helping taking care of some of this, yes. To answer your question has the industry changed that much, no, I don't think so. I think the Secretary of Agriculture is aware of what is going on or, you know, is aware this is going to be a surplus in production and rises have a lot to do with it. It's just like on my farm, if I get a \$91 less price for bottom line for my returns per year my costs are fixed, I am going to have to milk more cows.

Mr. Chairman: in 1949, there were something like 500,000 commercial dairymen, today we are down to 160,000. During a price-only type of program the individual dairy farmer has expanded. We reduced the number of dairy farmers, we reduced the total number of cows as well as the product per cow. This is going to continue to happen. The individual under lower price may be milking more cows, but at the same time another dairyman may be out of the business. That's a trend that's been going on for 50 years and I don't see a reversal of that trend. Do you?

Mr. Page: No, I don't. I don't. I think we are going to be more commercialized, more specialized as dairy farmers and I think that we will all get married if we are going to stay.

Mr. Chairman: Any other questions?

Mr. Shade: We see the support program working very well when we want to increase production. But how do you view the support program for reduction?

Mr. Page: The lower price on milk support price, as I said before, will increase my production but you know, there is a limit to what your facility will handle in increasing production and your labor force and your farm so you are going to increase it a certain degree and you are going to stop and then you might sell out. The price increase or the price decrease, you increase your production but it's a short-term thing.

Mr. Shade: You're saying then that it temporarily answers the problem.

Mr. Page: We need a long-range stable program. We as dairy farmers tend to, well, it takes us 2 years for a heifer to come in the barn and we need, we think—we're thinking 2 years ahead all the time.

Mr. Shade: In periods where we have surplus of 5 million pounds or more you would favor a supply and management program?

Mr. Page: Yes, I would and I would like to bring out something else. Gary talked about the two-tier pricing. The fellow that overproduces for a market that isn't there, let him put his money into advertising research for an industry to help improve that market that isn't there. I would like to see a lot of emphasis put on advertising and promotion for the fellow that goes beyond his phase or—.

Mr. Williams: Along those lines, Harlan, does your supply management program have a regional aspect to it?

Mr. Page: I don't know, how many regions are you talking about?

Mr. Williams: I am talking about the southeast.

Mr. Camerillo: Florida.

Mr. Page: Are we talking about 3 regions, 10 regions, or what?

Mr. Williams: You would probably have five. I could think of southeastern, north central, central, the mountain area, and the Pacific coast area. Each one's different.

Mr. Page: The problem today through the southeast you're short of milk.

Mr. Williams: We always are.

Mr. Page: And that processor has to have enough money to get that milk up north to get it to you.

Mr. Williams: The farmer pays it.

Mr. Page: The farmer pays it, okay, but there has to be some money there. I think a regional program would work if it was tailored right. Any other questions?

Mr. Chairman: We thank you, Mr. Page.

Mr. Page: Thank you for letting me appear.

Mr. Chairman: Our next witness is Maynard Lang.

Mr. Lang: I'm Maynard Lang, I farm in Iowa and I am very happy to appear before you people on the Dairy Commission and I have a little different situation than those that have spoken so far in that I have a little different viewpoint because I'm right in the heart of the Corn Belt where we do raise a lot of corn and soybeans. At least one person up there at the head table is in that kind of an area and we may have a similar viewpoint.

A lot of this has been covered and I think you have copies. On page one is a history of the start of the diversion program and going through the whole herd buyout and the fact that most of the people in the whole herd buyout in that last quarter seem to be waiting until the last month because the price ratio is pretty good and then there wasn't any money available either. They apparently will be going out rather late in the period, but I would like to comment on those two programs.

I would like to say that farmers at least in the Corn Belt require about 1 hour after the total contents of the program, whether it be ACR Acres or CRP Acres or whatever to figure out what's best for them. I mean farmers are geniuses for figuring out a government program and I think they had diversion, the 15-month diversion program figured out in about 15 minutes. It just simply was not long enough. I mean they rolled their cattle back, they didn't breed their yearlings until they were 2-year-olds. It worked well, we knew it was not long term. I don't know whether that was government design or whatever but they didn't let us have it long enough. I don't know why they didn't let us fund the diversion, the dairy termination all ourselves. We could just as well have done it. We have made some enemies in the Corn Belt. I would like to say the president of the Iowa Cattlemen's Association cornered me about a month ago in an alumni meeting and proceeded to tell me that they were running up and down the halls of Congress right behind us a month ago on a bill by the Vermont legislator attempting to get the dairy bill defeated. He gloated a little bit. I said we have got a lot of votes coming up on your referendum on promotion. I said I think you better wise up just a little bit. I think you might need our help to get the referendum passed. I think you are in dire need of research because every morning when I am milking cows I hear the doctor from the American Heart Association telling people to eat red meat but once a week. I think you are going to need our help and we should be working together.

The last paragraph on that page that deals with milk price from 1982 through 1986 and we are seeing the price go

down and it merely leads to the fact that lowering farm prices for milk does not necessarily lead to a lower price for the consumer. So much for page one.

The attitude of the administration seems to be on statements by people in the Department of Agriculture to let the price cuts take care of the surplus production.

The price support level has been reduced on nine different occasions since the program was adopted in 1949. A review of those price support reductions reveals that retail prices immediately following a reduction in support price level have either not decreased or have decreased at a rate substantially less than the rate of decrease in support price. During the period from 1981 to 1986 the support price dropped 14 percent. The retail price for a half-gallon of milk was unchanged, skim milk increased 4.1 percent, low fat milk increased 1.4 percent, butter, cheese increased 7 percent. So the relationship of what the farmer gets and what the consumer buys it for does not appear to exist.

A review of history brings us to the conclusion that using dairy price support decreases to bring supply and demand into balance will not benefit consumers through lower retail prices and it pretty much in the 5-year history or 6-year history that is most recent appears that lower price and higher consumption do not benefit the farmer. This does not occur because the lower price does not occur. This whole statement is that the farmer gets less does not necessarily mean the consumer pays less and then it deals with the farmer's price level and how he reacts to that. Why has milk production continued to increase despite price reductions?

Macroeconomics covers the total industry, micro the farmer alone and I don't think it hurts any of us to know that. The farmer acts different than does the total industry and while the government may base their opinion on the total industry a farmer bases his decision on how it affects him. I would like to go back to the mixed scenario down there that deals with the 13,000-pound herd and in the discussions last night with the gentleman. He said that 13,000 is not enough. I agree that's not enough. Many Iowans are in that position because they spend too much time with corn, hogs, and soybeans. They rush through the cows and get out and get the corn planted by May 1st and I want to comment on that a little later because the situation from the past history is not what it is we are going to face in the next decade because this milk production is moving to the sun belt, especially to the drier south and southwest. Certain factors will not affect production as they have in the past. We must look at it differently. But obviously a farmer, if he gets a price cut, in order to maintain the family living level, must milk more cows. I would like to go back to a statement and show you how this has taken place. My father raised a family of six, he never had over 160 acres, we never milked over 32 cows in the stanchion barn and probably never any more than 26 or 28 milking at one time because he didn't like to shove them in and out. If a cow got that stall, she got that stall for life was his way. But he was able to raise a family of six, put four through college and two to be doctors. Now if I milk 26, 27 cows and had six kids I am not sure I could pay my taxes even though my herd average is twice as high as what my father's was in the 1950's and 1960's because you see the margin swings that much and this is basically what has

happened so this thing that took place in the 1970's when they talked about the farmers and their Cadillacs and Miami and Jamaica was a relative thing, most of those are now not farming, they have long since gone. So the short-term trend will be lower price, we will milk more cows but basically as long as there is any margin at all in producing milk people will increase because the other options were not good, beef cattle, feeder cattle has not been making money for 10 years, hogs have been down for 6 years. The corn price and the soy bean price if the government ever backs out of the program, which they indicate they will in the next 2 or 3 years, you cannot produce them for what it brings to the market. So in the short run we will probably see an upswing in the upper Midwest in production if they lower the price. Long run it may break some of them and I see that coming on a lot of people that I do business with and they will probably be gone in 10 years. It will affect the towns, the communities, the school systems. I know very well the facts in Iowa, we have gone from 143,000 dairymen in 1949 to 11,000 today. Many of that comes about as a choice, hogs got good, beef feeder cattle prices were good in the 1960's, hogs in the 1970's and they went voluntarily but what we are going to see now in the options, cattle and hogs are good, so much production has switched to the drier sun belt, you are not going to see the economics affect us in the next 10 years the way they did in the past 10 years simply because 1,000 cow herds in California replaces a lot of upper Midwest cows. We will not see economic factors vary it as much as they have in the past. So I guess the whole situation of this, the direct economics of lower prices, less production just doesn't necessarily work for the farmer, that's the thrust of this whole thing. I would like to say that there may be some switching to dairy, beef, and hogs. At the moment in Iowa they are right now. I would say that there will be more, because they are family operations and because the kids can't quite see milking twice a day when none of their neighbors milk. There will be more people leaving the business because they can't convince their children it's a good way to live. I don't see that changing in my part of the State of Iowa. Now you get in the northeast Iowa and Wisconsin where you have more people milking and I think you will hang on better and we saw this is true in the Dairy Termination Program that they didn't have the evacuation that we had in Iowa. Another thing that I see taking place with the upswing in beef prices is, we have more people using Angus bulls with their 2-year-olds and their cows for a year or two until they need to replace them. I see a lot of people who are using beef bulls on their heifers and some of them on their entire herd. Maybe replacement cattle number will drop in the next couple of years if beef prices stay up.

I don't think we will see the family farm disappear in the Midwest nor anywhere else in the dairy industry but the definition of a family farm will have to change, you will see a higher management level and it must change. I don't think you must assume that 160 acres and 30 cows is the eternal definition of a family farm and dairy. I have a very good friend who heads up the Iowa Farm Labor Coalition, a very intelligent, very honest young man. I have listened to him on occasions when he has asked to come in to the Iowa Board. I don't think that we can guarantee the 160 acres and 30 cows will be the eternal definition of a family farm but I think

family farms will continue—but they will be a different description. I was asked to comment on one more thing that I think seriously affects the family farming in the upper Midwest and perhaps all over the country. I was asked by someone up there to go into this a little bit, although it doesn't necessarily deal with dairy. But starting 15 to 20 years ago I could see that it was not economically viable for family farms to be paid for every 25 years. In other words, when dad gets to be 85 and the son's 55, the son has the great privilege of buying the farm out when he is 55 or 60 years old. The proceeds are then equally divided between him and four other kids who live in Detroit, Chicago, or Memphis or elsewhere. The poor son who was 55 or 60 sweats the rest of his life trying to pay for it and the other five live like kings and never had to put up with the old man's guff.

Well, until the last 2 years I finally got Niel Harrow and some other writers on the State Planning in the State of Iowa to agree that maybe we need to take a look at this. This is very serious, agriculture cannot pay for itself every 20, 25 years and the land to support it. Equal is not necessarily equitable and for some of us who are very strong and opinionated it's worth the whole damn farm to put up with us and our opinions and our advice through the late years but in my own case I convinced my father, who had 4 sons, two are doctors, I said Dad, they don't need it, Jack's still on the farm there at home, sell it to him and he did sell it to him when land was still \$300 an acre. When Dad died 3 years ago, the land was at \$2,000. If Jack had had to buy that at the prices 3 years ago he'd just as well walk off after 30 years, all those years down the drain, so we need to take a reevaluation of how we turn this farm over to our sons if we expect them to stay with us and I don't think we can expect them to be treated the same as a veterinarian's son, doctor's son, a professional man's son. We have got to take a strong look at that. We just can't pay for farms every 20, 25 years.

Well, I have other ideas but with that I will quit for today. I will try to answer questions.

Mr. Chairman: Thank you, Mr. Lang. Tom Camerio?

Mr. Camerio: Give me your definition of the family farm. I realize it may be tough.

Mr. Lang: In the past it's been family management and family labor and I think that's got to change. I think it can still be family management, but I think the family farmer must learn to utilize other people even in the upper Midwest. I don't think we can expect the next generation to spend a 7-year period while I was putting my children through college and never missed a milking in 7 years, I do not recommend that as a way of life. I don't think we should expect to put our children through that. Not that the hard work hurt anybody but worry kills more people than work but I just don't think it's a good way of life. I think we need to utilize some hired labor. I think with the change in times there are some people we can get to come in on a part-time basis in the upper Midwest, do so many milkings per week or a regular supply of substitute labor. I think we need to. We farm about 1,000 acres, that's already changed from 160 acres two decades or three decades ago. Family average in Iowa, you can just see that go from eight cows through the 1940's, 1950's, 1960's, 1970's, you can see it go from 10 cows to 20 cows to

30 cows to 50, to 60 cows and this is not going to change. There are still family farms. I think your operations in California, most of them are family managed and operated. I don't know what the definition is but I think we need to be better businessmen, we need to know what our costs are and be better at everything else.

Mr. Camerio: Family managed.

Mr. Lang: I would say half the people, my breeding stock company, half the people that buy from me are not good enough businessmen to survive. Another percentage of them don't know what their costs are. Somebody has got to sell them bulls someplace, they don't just buy them from me and their breeding replacement stock and they are fine people but they are just not business oriented.

Mr. Williams: Mr. Lang, as economics prevails in the industry and you watch your variable costs and nonvariable costs escalating, taxes, higher cost of machinery, these unit costs have to be overcome. Volume seems to be about the only way you could do that, you have got to put more units through that operation.

Mr. Lang: Right.

Mr. Williams: So do you foresee overcoming these variables and fixed costs?

Mr. Lang: Yes, I talk about that a little bit sometimes too. A lot of people in the Midwest have put in a double section of 12 units and they can do their milking in 2 hours a day so they can get out to the field and work. Now that's not good economics. That machine cannot work 1 hour in the morning and 1 hour at night. They ought to be figuring—your unit cost is very important and they will have to be spread out. I think they will have to get bigger, I think the herds will continue to increase. We have some various factors; I think you have a humidity problem which is why a lot of people don't like to milk cows in Florida and Georgia and in that area. California and Texas obviously they don't have to have the buildings and housing that we have in Iowa and Wisconsin and Minnesota and your costs are less there. Everyone has got their own problems. I happen to think it's one industry and one of the world industries including corn, soybeans, and everything else. If we have a complication let's stick together and figure something out for the whole—everything.

Mr. Shade: Maynard, I think you gave a very good testimony and I have been impressed by the truisms that you have sprinkled throughout your testimony. At the outset of your paper you spoke about the spread between the price of milk to producers and the price to the consumers. Would you advocate the producers investing more in Class One operations to capture that margin?

Mr. Lang: Not only in Class One but also in added value. I think we as cooperatives must go closer to the consumer. We have to strive to go more to the finished product. We need not let certain food companies get all the wide margins and we may have to band together, either joint ventures or growth of co-ops together. We haven't touched the surface. I mean all we talked about was hauling waste to the nearest plant, that's something but we haven't really even gone into the place where the people are, where the margins really

are, and I don't know totally what they are but I know they are sprinkled throughout farming and I know there must be even more of them out there in those added-value products in the marketplace and really, in general, cooperatives have not really moved into that area. I think we need to get together and work for the good of the people whom we are supposed to be representing back home and not worry too much about our board seats and our egos and work with the fellow back there and really try to enhance his price. I think that's why we are here and the time element that we are here is relatively short so let's try to get done what we can while we have got time to do it. There is a lot to be done.

Mr. Shade: I would like to move to another subject. At practically every hearing we have heard it said that higher price will bring more milk and lower price will bring more milk.

Mr. Lang: That's right.

Mr. Shade: Both are correct. Do you see any inconsistencies in that?

Mr. Lang: Not at all, I think if the price is right that's just typical. One man milks more to survive and the other man milks more to make his bank account bigger, it's as simple as that without any kind of supervision or controls whatever. I really don't like controls at all. I like to match wits and go at it but the industry I don't think can afford that, to go it alone.

Mr. Shade: If we are going to try to get a satisfactory price, I think most of us agree we need another supply-demand balance. How do you think we best could achieve that?

Mr. Lang: Well, there are a lot of ways, we are going to have trouble getting another Dairy Termination Program again, cattlemen are going to fight us I'm sure every step of the way. Diversion works pretty good. I would like to see some method by which we more or less finance most of it. I think that will be less painful than strict price cuts. I think this may be the coming thing in the next decade or two. We are hearing rumors and conferences in Europe and this phase out of all farm subsidies, they aren't going to get done overnight because some of those people have been without food, they are not going to let the United States take over. Let's not kid ourselves. They are going to keep subsidizing it. The friction is not going to just continue. I would just hope we can eliminate as much friction as possible among the leadership of the dairy industry in the United States and agree on some compromise here that will benefit us in total. I would like to see us dairymen financed in the majority, what type, I don't know. I think that diversion or dairy termination or through price or something in any of those would probably work but let's get together and agree that we are a world market and a U.S. market. Mr. Williams, I don't think we are a regional market. I would not agree with a regional program. Oh, I would agree to it if that's the only way you go because I don't like a fight but I am not sure it will work. We are pretty much a U.S. market.

Mr. Chairman: We thank you, Mr. Lang.

Mr. Chairman: Next we have a panel of Cecil Huff and Frank Farmer. They are representing Family Farm Coalition.

Mr. Huff: Mr. Chairman, members of the committee, my name is Cecil Huff. I live at Ava, Missouri, approximately 60

miles from here, and I represent a group called National Save the Family Farm Coalition, as well as some other dairy farmers that are here today. First I would like to give you my group's impression of the full herd buyout. It is touted as a voluntary program. When I balanced my books at the end of the year, I found out it wasn't quite as voluntary as everybody had led me to believe. Even though I didn't sell my cows in that program, it took \$3,500 out of my account to finance it so in a sense the program was mandatory. Everybody was required to participate. I agreed with the program in the sense that it was a form of supply management but if we don't come in with a permanent supply management program immediately we will lose the benefit of \$3,500 that I paid, plus the millions of other dollars that other dairy farmers paid to finance this whole herd buyout program. The same goes for the dairy diversion program. Each of us has to pay an assessment. It was mandatory that we participate in the program. I would like to offer an alternative to that which would be the Family Farm Act, House of Representatives Bill 1425, introduced by Senator Harkin of Iowa and Congressman Richard Gephardt of Missouri. This bill provides for dairy farmers to choose in a vote, in a referendum, whether they will consent to supply management in return for 1970 percent parity. If the majority of the farmers vote in favor through a referendum, then 70 percent of parity would be instituted for milk with a 1 percent escalated per year that would reach 80 percent of parity with a mid-term review by Congress. It seems to me that the programs that we have been confronted with in the past, i.e., the whole herd program, the dairy diversion program were effective only in reducing supply. They were not correspondingly effective in raising farmer's prices. They did result in a reduction in that supply but not a corresponding increase to the price. It is my belief that if we are to save the family dairy farmers and all the dairy farmers out here and halt a concentration of wealth in the dairy industry like we have seen in the poultry industry and we are seeing in the hog industry and the cattle industry now that we have to have a program that sets a floor price on dairy products, milk, at the farm gate and lets the processors and the handlers of this product get their price after we get our price. The problem in the marketing structure we have now is the farmer receives a residual price. The price we get at the farm gate is after everybody in the food chain takes their cut and what's left is ours. The problem with that is the average farmer nationwide last year had a minus 13.4 percent return on equity. The six largest food processors averaged a plus 15 percent return on equity. The highest one, Kellogg's, had an exorbitant return on equity, of 33 percent so you see, the consumer paid for the product but we as dairy farmers never received a fair price for our product. One thing the Family Farm Act would do would establish a base, the current language uses the last 5 years, dropping the high, dropping the low, and averaging the remaining 3 years. The 1 percent would be pulled off that to be used for beginning dairy farmers and in special cases where the base didn't work fairly. I feel it's important that we have this 1 percent and these set of priorities which would give beginning dairy farmers a way to get into the industry. It would be a noneconomic base, you could not buy or sell the base. I feel that's important that we not buy and sell base in order to aid be-

ginning farmers getting into the industry. The program provides another set of priorities based on family members and is too lengthy a list to go through right now in the limited time I have. They have, if you will, a pecking order of priority of how this base would be awarded. Once a dairy farmer quits producing, the base goes back to the local ASCS office. Your local ASCS committee which is selected by farmers would determine what farmers in the area would get all the new and unused base plus any national bases that entered the pool. I am very much in favor of local control. I feel that local farmers know best their area and know best the farmers in that area as opposed to state or Federal Government dealing with it. In a sense the Harkin-Gephardt Family Farm Act does have a two-tier price system. You would receive 70 percent of parity for your first level, your quota. If you produce over that amount, you would be assessed a 75-percent penalty. This money would go to the USDA to reduce the cost of the bill and it is conceivable that this dairy bill would be virtually a zero budget item because of its likeness to a minimum wage law. The minimum wage laws don't cost the taxpayer in this country any money, neither would a minimum price bill but it would require the user of the product to pay the price. Under the current system the taxpayer is paying the price as well as paying it at the grocery store, and oddly enough he is paying 30 percent more for food over the last 6 years, at the same time farmers have been browbeaten into bankruptcy.

One statement that was made up here I want to comment on before I let Mr. Farmer speak. The statement was that he doesn't think we are going to lose the family farm structure. We have already lost 600,000, about a half a million plus in the last 6 years. The Congressional Office of Technology Assessment says at the current rate, unless farm policies do not change, by the year 2000, which is just 12 years away we will lose 1 million more farms and most of them will be medium-size commercial family farms. If we lose another million, that's our family farm system, and history issues a stern warning, countries that ignore their agriculture suffered disaster. The Soviet Union disseminated the peasant class of land in the 1930's and we know what happened to that country. Democracy in my opinion is best preserved when we have widespread distribution of not only farms but small businesses. People that don't own anything don't participate in local, state and Federal Government because with ownership of land goes wealth, with wealth goes power and when wealth and power fall into a few hands it inevitably corrupts and that corruption will eat at the base of democracy. It was done in Central America, we know about Nicaragua—a good case right now—and that's where as few as 13 families own most of the land so I encourage the panel to look at the language in the Family Farm Act and strongly recommend it as a viable alternative for a farm policy, thank you.

Mr. Chairman: Thank you, Mr. Huff. Are there any questions?

Mr. Camerio: Yes. What do you think about parity. Does the parity formula need to be changed?

Mr. Huff: It already has been changed. I am in opposition to that. We are on a floating parity now which moves the base up every 10 years. In other words, if you have had a bad

base the last 10 years, when you move it up to the current date it is not reflective of what the true economics are in the marketplace. Parity is a yard stick and a yard stick was 3 feet in 1910 and it's 3 feet in 1987. You can move the base up from 1910 to 1920 and up to 1950 and get within one penny of what corn price would be using both of them and that reinforces my argument. The parity formula, the old parity formula is a yard stick, it is a measurement of farmer's buying power with the other segments of the economy so I am familiar with the argument you are pointing out and I find it very ironic that they can't substantiate that argument with documentation.

Mr. Camerio: Well, I understand your point.

Mr. Chairman: Mr. Farmer, we will listen to your testimony now.

Mr. Farmer: Thank you, Mr. Chairman, my name is Frank Farmer. Farmer is the name and farming is the game. I was among the gentry that was a part of the exodus of the 1950's due to political and economic and weather circumstances. I never ceased to farm and milk cows night and day. Today the family, the Farmers, have been around for 98 years and at this time I would like to ask my son, he is the full-time dairy farmer to stand. Andy, Frank Andrew Farmer.

(Mr. Andy Farmer stands.)

Mr. Farmer: It is on his behalf and on behalf of the Cecil Huffs, the Roy Boedekers, the Bill Thompsons, the son, Jeff, of Doyle and Betty Stokes and the sons of Albert Bos and his daughter-in-law and the other young people who face an uncertain future in the dairy business that I speak with my more ancient and not necessarily more mellowed wisdom. I think that Cecil Huff is one of the more articulate and certainly one of the more courageous spokesmen for agriculture in our age and I commend him for his comments just now as I commend Gary Huff and other fellow dairymen and members of the Mid-America Dairymen Cooperative for their comments. There is very little, if any, diversion of opinion. I think you will find us all very closely unified in our observations. I think you may find it interesting that while I was one of the original members of Mid-America Dairymen our milk goes to Mid-America Dairymen today, but it was not Mid-Am that asked me to testify but it was Cecil Huff, who is president of the Farm Alliance of Rural Missouri so I do have, I suppose, some spread of influence there that I hope you will appreciate. I would like to address my comments in regard to six areas and I will do so as briefly as possible because I know that your brains must be weary. Those six areas are price supports for milk, supply management, imports, bovine growth hormones and alternatives, which would be total producer control of milk marketing and the concept of parity.

Number one, the price support program for dairy products has been one of the most successful programs ever executed by the cooperation of government and the private sector. It has worked to perfection when the political administration in power in Washington wanted it to work as, for example, the Carter administration, and it has failed miserably when the political administration in power wanted it to fail as, for example, the Reagan administration. I will beg the point no further for you are as familiar with the price

support program as I am. However, I want to relate one small anecdote. I once wrote a laudatory newspaper column about the price support program. I received a call from a woman who castigated me and said how can you say the price support program has been successful, look at the surplus we have and look at the high price we pay for milk. I replied, it is easy to see the price support program has been a success. Have you ever gone into a grocery store anywhere in the United States and been unable to buy all of the pure, wholesome nutritious dairy products you wanted? That privilege is principally due to the production and marketing stability provided by the dairy price support programs. Were it not for that, you might very well be in the same shoes as the mother in Moscow, in Mexico City or in Lima, Peru where you must have a doctor's prescription to buy milk or where there is no milk at all to buy for your child. I would also point out that politically the price support system has been turned against us. Six and a half years ago milk was about \$13.25 per hundredweight, and consumers were paying about \$2 a gallon for it. Today milk is about \$2 a hundred less than that, and consumers are paying about 20 percent more for the same gallon of milk. Some type of index mechanism must be developed to keep this economic discrepancy from being achieved. Nevertheless, the price support system must remain in place at all costs, or else the United States will suffer wide swings in price and supply of dairy products, hence those producers cannot and will not accept the financial risks inherent in such a long-term business.

Number two, because of the enormous productive capability of dairymen, including their almost fanatical willingness to work they are capable of overproduction and self-destruction. Some kind of production government other than the cruel survival of the fittest must be engaged to protect dairymen against themselves. Andy and I would accept voluntary supply management. We would also accept a historic base or a quota with one provision, that it provide a sufficient income for a middle level standard of living for each individual dairy farm family involved in an operation. It follows naturally that the price of the product, if high enough, will provide that level of income at a lower base per quota. Today we have seen government create a monster that forces us to self-destruct. The more money taken from our milk checks to control production or numbers of dairy cows, the more cows each dairyman must add to make up for those deductions. This is economic insanity that must cease. Furthermore, we in the Midwest do not believe it is Christian to usurp the rights of our neighbors to earn a living. We do not want to milk 500 or 1,000 or 5,000 cows. We want to milk enough cows to earn decent livings for our families, not to create mega businesses as we are seeing for instance in Texas, California, Florida, and now Georgia with Masstock International's operations. Masstock's entry into the U.S. dairy production scene is a good description of the word obscene.

Number three, I believe the American producer of any product deserves first a crack at the American market at a competitive price. We cannot compete with slave wage nations in anything unless we first lower our standard of living and with constant costs of production to this level. Lincoln said it

best when it came time to build the railroad system in America. Quote, we can buy the rails in Europe but if we do we will have the rails and they will have our money, but if we make the rails here we will have both the rails and the money. This holds true for dairy products as well as rails and television sets and shoes and every good necessary to this Nation which could be 95 percent self-sufficient, free of external debt and prosperous if it were not for our trade practices that have in just 6 1/2 years succeeded in taking the United States from the position as the world's largest creditor nation to the position of the world's largest debtor nation, a disgraceful circumstance.

As for importing casein, actual manufacture from Mid-American Dairymen, Inc. has proved we can produce casein in the United States but it is not now economically feasible because of the discrepancy in price levels, trade inequity in other words. It will never be economically feasible as long as this Nation is loyal to unfair trade practices instead of United States values.

Number four, we need bovine growth hormones like a hole in the head. We must bear in mind that each technological advance has rebounded to the benefit of the consumers more than to producers. The economic status of dairymen has remained constant or even deteriorated. We are kept on the economic treadmill as benefits are passed upward and onward and we are pressed downward. BGH will be no different, only the big chemical companies will benefit and all those poor dairy cows receiving a shot a day for 200 days and oh, we poor dairymen getting our heads kicked off as the jittery cows come into the barn expecting that daily injection. Furthermore, and most important, the public has had it up to its gills with poisons in our air, our water, our earth and consequently our food. The public suspicion of hormones additive, justifiable or not, may well cause us to lose many or all of the gains we have made by advertising and promotion. Find a nice nuclear waste site and consign BGHs there along with the rest of the man-made poisons.

Number five, finally an alternative, total producer control of milk along the production chain. I am fed up with retailers making as much as 10,000 percent on our perishable, quick turnover product on the money they had invested while we do all the hard and dirty work, take all the risks, and take all the heartbreak for crumbs. And I am tired of seeing my fellow Americans, dairymen, become third-class citizens. We own the cows, we produce the milk, we have the cooperatives in place to process milk, we take up the slack with the manufacturer of a host of dairy products. Why don't we take the next logical step in unison? Let's learn to retail our milk, all of it. Let's stop the daylight robber that takes toll of our livelihood, our hopes, our dreams, and our ambitions of our sons and daughters and grandsons and granddaughters that hope that one day they will be able to carry on our proud but beleaguered tradition of producing nature's most perfect food.

Gentlemen, the concept of parity is something which has been suggested and I want you to know that I am one of the foremost proponents of parity. Let's forget once and all that farmers will allow the concept of parity to die. There must be an ounce to begin the scale of weights and there must be an inch to begin the scale of measure. There must also be a

unit of measure for economic equity and that unit is the concept of parity, honest parity, based on an oz base period of economic balance. Parity is nothing more than an index, as Cecil said, nothing more than a yard stick and it must be used when determining our price levels. We believe that parity for agriculture as a whole, not as segments, is absolutely necessary if this Nation is to ever experience economic balance and prosperity and pay the \$6 to \$10 trillion in public and private debts that have been racked up over the years. There is only one source of wealth, the earth, and agriculture provides 70 percent of that new wealth that enters the system each year with some miniscule industries providing the other 30 percent. As each unit of that production is priced so then will be the economic welfare of the entire Nation. Any shortfall in earning income can only be made up from one source, the injection of debt and debt can be substituted for earned income only so long and then the economy must collapse like a broken chain letter or a row of dominoes. The United States is perilously close to that point and only honest admission of this fact and the reversal of economic activity that brings all of agriculture into parity balance can prevent the destruction of the United States as an economic and social and political power. Gentlemen, you hold a great responsibility by the wisdom of your actions, a responsibility not only to the Nation's dairymen but to the 240 million other Americans as well. I pray you will probe the depths of intelligence heretofore unprobed with invoked acts of courage heretofore uninvoked and help set the United States back on the road to economic stability. There is no better place to start than the Nation's most basic, fundamental, and most important industry, the dairy industry. As goes the foster mother of mankind so then also goes mankind. Thank you for your attention.

Mr. Chairman: Thank you. Are there any questions?

Very good testimony, gentlemen. We thank you.

Mr. Huff: Thank you.

Mr. Chairman: Our next witness is Fred Johnson, dairy farmer from Missouri.

Mr. Johnson: Thank you, Mr. Chairman. Members of the Commission, I think you have copies of my statement. I look at the time and look around the room and see the number of people who are here for the purpose of conveying to you their thoughts. I think it would be unfair if I took the time to go over my complete amount of material with you. There are a couple of points that I would like to pursue briefly. I am a dairy farmer from Bolivar, Missouri and it seems clear to me that policy setting at the national level involves a balancing act of many divergent interests. It seems that this is especially the case when considering agricultural policy. This agricultural policy not only needs to balance the interests of dairy divergent farms and agn-business interests, but also must balance the interests of consumers and, often, the interests of U.S. foreign policy. Although I realize how difficult this balancing act must be, it seems especially in recent years farmers have lost out in this balancing act and policy has tended to favor the other interests of consumers and foreign policy. I believe that future agricultural policy, and dairy policy in particular, should return us to a better bal-

ance and give heavier consideration to the needs of the farmer and the long-term best interests of the rural agricultural economy in the United States.

While we often hear of dairy policy being referred to as "farm programs," I think that it would be more appropriate to look at the dairy program in the past few years as being a consumer program. Most of the recent "dairy policies" that have been designed to help the dairy farm problem have actually helped the consumer more than the dairy farmer. The dairy farmer has seen price support cuts and assessments on his milk income that have caused hard and painful financial adjustments on the farm. I would like to insert here I also realize that we as dairy farmers had a choice to make on the assessment situation and we chose over a price cutting to accept the assessment and, although as pointed out in earlier testimony, we don't particularly like assessment, we don't like price cuts either and understanding the budget process, the need to cut the expenditures. I think I would favor continuing some type of assessment as long as we have also some type of supply management to go along with it rather than price support cuts. The dairy farmer's position has not yet improved with these assessments and the long-term programs that were intended to help us, the actual diversion program and buyout being rather short in length.

The percent of disposable income that consumers spend for food has decreased over the last 15 years from 20 percent in 1980 to a little over 16 percent in 1985. Just since 1980 the percent of disposable income spent for food has gone from 18 percent to 16.6 percent. That means that the American consumer has an extra 1.5 percent of his disposable income that can be used for other expenditures due to the decreasing amount spent for food. This percent of disposable income spent for food would even be lower if one took out the amount of those expenditures that actually paid for the services and convenience that consumers now buy with their food through purchases of ready-to-eat products, as well as purchases of food consumed away from home in restaurants.

At the same time, over this 5-year period from 1980 in which consumers gained about 1.5 percent in disposable income due to decreasing food expenditures, the net cash income for dairy farmers, for example, decreased by over 30 percent. We often hear that there is a problem with agricultural surpluses and dairy surpluses in the United States. Well, from the consumer's point of view, there should be no reason to indicate that there is an agricultural problem. There are abundant supplies that continuously lower prices relative to all other goods that consumers purchase. The fact that there is a problem in American agriculture, and dairy in particular, is more related to the cheap food policy that has been in effect for many years in this country. Another indicator of this cheap food policy that has been in effect in the United States is the fact that the 16 1/2 percent disposable income spent on food in the United States is the lowest in the world and I applaud that, I think that's wonderful, that's great and I think we should strive to keep it the lowest in the world, but I also have a fear that we in agriculture somewhere along the line are going to have to start seeing profits come our way again and I certainly am not addressing my

negative remarks towards consumers but remember that we are dairy people and as agriculture are consumers also and we must have a profit.

Most of our agricultural policies over the years have tended to shift benefits from the farmers to the consumers. Since the 1800's the United States government has seen the need to help the farmers improve their efficiency and productivity, realizing the importance of agriculture to any economy and realizing that for any nation to develop to an industrial economy it must first have a well-developed agricultural economy. Research has improved the efficiency and productivity of American agriculture. The benefits of these advances have tended to filter to the consumer rather than helping the farmer.

Some studies have shown that consumers sympathize with the farmer and feel that he should earn a decent living from providing the adequate and wholesome supply of food that we do supply, and I think that the American consumer should be expected to bear some of the cost of assuring this supply. The current primary goal of policies seems to be to reduce government costs. Government costs translate to taxpayer or consumer costs. It appears to me that what is happening to our farm policy is that the small population of farmers in America are bearing the pain and agony of reducing those government costs of agriculture and food policies that benefit the total population of the United States. Many of the cost-cutting proposals, for example, the reduction of CCC stock, mean that these programs will need to be replaced with other taxpayer dollars. If the CCC reduces its dairy stock, what happens to the donation program that now helps the needy of this country to have adequate diets? Will these programs be ignored or replaced with other tax dollars after the dairy farmer has suffered in reducing those commodities that have been channeled to very worthwhile programs to help the needy?

Agricultural policy has also seemed to take it on the chin in maintaining a balance between domestic agricultural goals and the overall foreign policy goals of the government. Too often we see our domestic agricultural and dairy policy traded off for foreign policy goals of our government. We see import restrictions lifted on domestic agricultural products and leave foreign countries with open access to our markets at the expense of domestic producers. And you are aware, we are seeing some fine things being done in this area and I think simply the fact of the repetition of being called to those people who have control in these areas will continue to help in this regard but I think we must continue to pursue avenues in the trade areas. Other industries may gain but agriculture suffers. We also see agriculture being traded off for foreign policy goals such as military, when disadvantageous agricultural trade policy is introduced or maintained in order that our government can reach some military or other goals. Is American agriculture so expendable that we can continue to give it away in order to reach other objectives?

Now I would like to refer to an issue of the National Milk Producers Federation Newsletter, the July 13th issue, and I will quote from this issue. "With an announcement July 6th in Geneva before the participants in the Uruguay round on the general agreement on tariffs and trade the administration formally presented its proposal to eliminate agricultural

subsidies worldwide. This includes the U.S. dairy price support program and Section 22 import quotas. In his statement President Reagan called for major reform in world agricultural trade. The United States will call for total phase-out of all policies such as historic trade in agriculture by the year 2000" and I will end the quote there. There is some more to this article but the thing that, the fear I have simply is, that I feel we must continue to relay to those people and through this Commission and through the responsibility that you gentlemen have the importance of agriculture to the economy of this Nation. Admittedly, the article says that this will probably never happen, that other countries would not agree to the same type of solutions as far as their governments are concerned, but I think just simply the fact that our leaders were willing to put our price support systems on the table, sort of on the offering is frightening to us—the fact that they have maybe so little regard for the importance that we feel in our support system and in our marketing system that we have today. In closing I hope that future dairy policy will strive for a better balance between the interests of dairy farmers and other interests, agriculture, consumers, and foreign policy. While I know policymakers have to focus on the overall picture, I would hope that we could convey to them the extreme importance of a strong, viable agricultural economy and that this strong agricultural economy is the first step in a strong national economy. Gentlemen, I thank you very much for this opportunity to come before you and for your willingness to come to the Midwest and hear our testimony.

Mr. Chairman: Thank you, Mr. Johnson. I just have one question. Concerning the GATT proposal, that the Administration laid in front of us, my understanding of the proposal is that it is very idealistic to expect a worldwide agreement for agricultural subsidies. Accepting that for a moment as a possibility, even though we realize it's not realistic, would we in this Nation be concerned that we could not compete in the world for the production of dairy products?

Mr. Johnson: Yes, sir, I think we would and I think, as was pointed out in earlier testimony, the only way that we will be able to compete on the basis of worldwide production is as was termed I believe slave labor. We simply cannot compete in the same area at the same price that they can but I think there is a better way to bring production into line where demand will have a bearing on what even worldwide market prices should be. It's not something that's going to happen overnight, but I think it's something that we need to look at in the future and hope for and strive for. Even though I realize that talking about world prices and world production we maybe have become a little naive when we talk about production here in the Midwest or in California or Colorado or wherever, we must keep in mind the overall production of the world and what they produce and not necessarily Holland; it takes a while for it to affect us is what I'm trying to say.

Mr. Chairman: It is my understanding that, other than maybe New Zealand, the cost of production in the United States is far less than it is in the rest of the dairy producing nations.

Mr. Johnson: That's without subsidies.

Mr. Chairman: Right, that was the point of my question, accepting that idealistic situation which will probably never happen.

Mr. Johnson: It's not going to happen, that's right. The reason I brought this out, it is frightening to me that a system such as the support system, the thought of that being sacrificed to me is like, kind of like putting something on the altar for sacrifice. We have to compromise, we have to be flexible, but as you fellows are aware and others are aware we have a strong feeling by some of the people we don't need a support system anymore and I am not one of those, I think that we do need the support system and I hate to see it challenged. I hate to see it threatened.

Mr. Camerio: Fred, your testimony is good and the fear you have for the industry is valid. Our track record indicates that we have given more by far than the national trade we receive. When you start talking about a level playing field there are so many factors, like environmental problems, that we look at differently in this country. You mentioned slave labor, living standards, and the value of the currencies. All these things change that playing field. Sir, I compliment you on your vigor.

Mr. Chairman: Are there any other questions?

With that we thank you.

Mr. Johnson: Thank you.

Mr. Chairman: The next witness will be Walter Stemler.

Mr. Stemler: I am pleased to be with you today to share with you some of my thoughts. I am going to skip the first page because it deals entirely on my background, where I was born and things of this nature which you can read later.

In addition to milking cows for a living I am the chairman of the board of directors of the St. Louis Division and I serve on the corporate board of Mid-Am, also serve on the National Milk Producers.

My topic today that I am going to discuss with you is the bovine somatotropin or the BST problem. For example, I testified on it a year ago at the hearing of the U.S. House Subcommittee on Livestock, Dairy and Poultry.

My objection today is much like it was then, to give you the viewpoint on BST from a working dairyman. Right off the bat let me acknowledge that BST is a hot topic. It provokes different reactions among different groups.

Researchers are excited about it. Animal rights activists are upset. The National Milk Producers Federation is cautious. Many consumers appeared misinformed—a subject I want to return to later—and finally, dairy farmers are confused about it.

Some dairymen strongly favor BST. They see it as just the latest development in a series of technology improvements that have made American dairymen the most efficient in the world. They see it as a tool, not for more milk, but the same amount produced at lower cost.

But other dairymen question BST. They question the advisability of increasing production when we have just about completed a program to slaughter dairy cows to reduce the milk surplus.

What is my position? It is that, in general, I support new technology. In the past, our industry has benefited from improved feeding, breeding, and management techniques that include new milking methods and better production and storage facilities. These advances have made our work easier and kept us competitive. They have increased the average annual milk yield per cow from 5,800 pounds in the 1950's to more than 13,000 pounds today. In June of 1986, and I think that is a misprint, I think that should be 1985, I told the House subcommittee that we should not stop progress, but we should proceed with caution in endorsing such progress unless we are prepared to deal with its effects. In the case of BST, those possible effects could be far-reaching. I still feel this way.

So, too, does the board of Mid-America Dairyman. Let me give you their position.

First, we urge that all agencies and individuals involved in the testing and approval of BST for use in the production of milk use restraint and care in their decisionmaking process. Specifically, we urge that there be unequivocal assurance that there is no negative health issue involved that would impact the favorable image of milk or dairy products in the eyes of the consuming public.

Second, we urge that the impact of BST on herd health and on the milk production longevity of dairy cows be carefully assessed by long-term studies prior to general approval.

Third, we urge the assessment of the economic impact of BST, particularly with respect to existing supply/demand relationships and the benefits that may or may not accrue to dairymen in improving milk production costs in relation to prices received.

Earlier, I said that consumer perceptions were a special concern of mine. A St. Louis newspaper reporter recently interviewed me about BST. At one point she said she did not want her family drinking milk from hormone-treated cows. She wondered if such milk was being sold in the St. Louis area.

This is not in the script but I would like to insert my answer to her when she said she was not going to drink milk from a hormone-treated cow in the form of a question. I said lady, are you going to deprive your body and the bodies of your family a good food before you research it? So reading on, I explained to her what BST is and the fact that the U.S. FDA had found milk from BST-treated cows safe for human consumption. She listened and learned. She ended our conversation more knowledgeable and comfortable about BST than she was when we began.

I drew two lessons from this episode. One, that Mr. and Mrs. Consumer will have many questions about BST, and two, that good answers to at least some of these questions do exist.

I don't mind discussing BST with folks, but I also feel that the main responsibility for educating consumers about this product rests with its manufacturers, not with the dairymen or the dairy product processors. My sense is that the manufacturers understand the importance of this job and are committed to an effective public information program.

While consumer understanding is critical, it is not the only information needed on BST. Other important questions remain to be answered. They include:

Will cows be under greater physiological stress and more prone to diseases such as mastitis?

Is it the dairyman or the consumer that will primarily benefit from BST?

Another question, will it change the makeup of the dairy industry, that is the size of farms, the number of farms, and the geographical locations for dairying?

Will BST undermine the goal of the 1985 Farm Law to cut milk production?

I could go on, but we don't have the time. I know that research programs are being carried out by the manufacturers to answer these questions. Some of this work is being done to meet FDA requirements, and some of it is being done because the manufacturers are smart business people who want to know as much as they can about their products before they encourage us to buy them. I hope that today they are able to answer some of the questions I raised.

Let me close by urging some of my fellow dairymen to be both tough but fair on BST. Let's continue asking the tough questions about its long-term effect. But let's also be fair in giving the companies a chance to answer. Let's keep our minds open on this potentially helpful new product, while keeping a watchful eye for information as it develops. I thank you for letting me appear before you.

Mr. Chairman: You are welcome, thank you. I agree with you on the BST question, we should ask questions and when we get answers we will all be better off.

Mr. Stemler: I understand—I don't understand, I know that they are providing information as you probably have got them at your resources put out by or put together by the Animal Health Institute. They have got some good 10 questions in it, they do have some material, surveys, summaries, fact sheets and all of that so they are, the manufacturers are, coming across with educating both us and the consumer.

Mr. Chairman: As a dairy farmer would you have any idea of the adoption rate of BST if in fact it is approved? How rapidly will the dairy farmers adopt the use of BST?

Mr. Stemler: My gut reaction to it is that it is not going to move as fast as the manufacturers think it will. I think there will be a few dairymen that are going to try it. There are a lot of dairymen that are going to take the watch-and-see attitude, they are going to see whether it's working for their neighbor or not, and I don't think it will be approved until about 1990 or 1991 maybe and then I think it will take another 3 or 4 years before we ever will feel the real effects of it.

Mr. Chairman: Okay. The reason I ask that question is if in fact the tests are accurate and we are going to see a 10 percent increase in production, will that increase in production take 3, 4, 5, 6 years?

Mr. Stemler: My feeling is that it will take 3 or 4 years. It will not be quick.

Mr. Williams: You have done an awful lot of research on BST and we need to compliment you on doing your homework. Do you feel that maybe our biggest problem would be in overcoming the Jerry Rifkin approach rather than the pure technology of convincing people?

Mr. Stemler: Well, at one time I was really concerned about Jerry Rifkin. I heard him at the same hearing in Washington and his threat sounded severe to me, but we have lived through a period when he said he was going to boycott stores in St. Louis. He held several meetings, the attendance was very poor. He didn't get it so I am less concerned about that movement. I am more concerned about the word hormone being used and if you noticed I did not use the word hormone, we have got to continue using the word somatotropin or BST because it does fall into a category of a hormone but it is not a true hormone.

Mr. Williams: Thank you.

Mr. Chairman: Thank you.

For the record, I would like to note that all the testimony received here in Springfield is going to be available to all the Commissioners, even though there are only three of us left here today. We also have concurrently going today in Dallas another hearing.

Our next witness is Albert Bos.

Mr. Bos: Thank you, Mr. Chairman, and the rest of the committee. My name is Albert Bos, and I am a dairy farmer from Billings, Missouri, about 30 miles west of here. I am pleased to talk to the Commission this morning regarding policy direction for the dairy industry in the future.

In the past years we have been troubled with surplus milk. Our goals are as dairymen to bring supplies in line with demand and at the same time reduce the cost for the government. We as dairy farmers have done a lot of things to reduce supplies, voluntary programs, advertising and now the whole herd buyout and paying for this dairy, and a lot of dairys have fallen by the wayside. Then to know that our government policies are allowing subsidized dairy products to come into this country. I am specifically talking about casein which from 1975 went from 60 million pounds to 240 million pounds in 1986 which means a 400-percent increase. We dairy farmers would like to see some policies changed on imports and to mention three of them, the most recent one of which was a provision in the Trade Reform Act that would help us in calculating the support price reduction on January 1st of 1988.

Second, quota limits on casein imports as a USDA report estimates that a limitation on casein imports of 50 percent from the average from the imported average from the year 1981-1985 could save the dairy support program costs from \$84 to \$300 million. A quota like this would help our dairy farmers by using our milk supplies.

The third policy I would talk about being the revision on the existing policy, the Food Security Act of 1985, to promote domestic casein industry in this country. This law expires in 1990. Mid-American dairymen did make casein at one of our plants in Zumbrota, Minnesota. This law ought to be extended for another 10 years or so. Maybe the U.S. Govern-

ment could help through Federal bonds, low interest loans to establish our own casein manufacturing plants. This will also help the quality of casein because we have higher quality standards in this country than we have in Europe and to prevent the spread of hoof and mouth disease. This would be to the best interest to all of us as dairy farmers, consumers and government. Thank you.

Mr. Chairman: Thank you, Mr. Bos.

Mr. Bos: I might make one statement. I listened this morning to all this. I think what we as dairy farmers or as farmers as a whole ought to do is get a longer, not a 1-, 2-year program, we have to look in the future so we can make our arrangements at home as far as borrowing money, you know, like the herd buyouts or the other programs, a couple years and you could change around again. If you have got sons in your operations it's hard to make decisions how many years can you go on this. I think we ought to have, not just because the President is changed or the Congress is changed, I think you ought to have a long term and then go from 2 years, change it a little bit at a time but a solid program for farmers.

Mr. Chairman: Are there any questions?

Mr. Williams: Mr. Bos, do you think it would help us on our casein imports to have the classification changed from chemical to food?

Mr. Bos: I would think so. As you know, I am from Holland and I know the standards for milk over there and I know what hoof and mouth disease is, we call it mouth and hoof disease over there, we are backwards, but anyhow I know what it is, I've seen it and, you know, you have got to be vaccinated for it now and it still, it is there, you have got to watch it and I think what you're saying there, but it is a dairy product, I think it should come under that.

Mr. Williams: Food and Drug.

Mr. Chairman: Mr. Bos, how do we keep policies out of the politicians' hands?

Mr. Bos: That's a good question, I don't know either. We ought to be smart enough, though, as a people to look at this. You know, I am, like I said, I am from Holland originally, I am an American but still these people, after the war, they found out, take care of the farmers. The rest of the country will follow and we don't do that over here.

Mr. Chairman: This Nation's never been hungry yet.

Mr. Bos: That may be true too.

Mr. Chairman: Are there any other questions?

Mr. Shade: Mr. Bos, I think you made some very good points for us, I appreciate your testimony.

Mr. Bos: Thank you.

Mr. Chairman: Thank you.

Our next witness is Doyle Stokes from Midland UDIA.

Mr. Stokes: Thank you, Mr. Chairman, and members of the commission. On the onset I would like to thank you for your attention at this hearing, they are highly important to us as dairy farmers and I am glad that you people are as dedicated to spend as much time away from home as you are to

hear what we have to say. I would like to clarify one thing. I am a director of the UDIA, but I am also a dairy farmer and I am here to speak maybe on a little different subject than what has been discussed so far on the promotion side of the issue but I am profoundly affected by everything that's said here on the other side too but I would like to speak primarily on the promotion side.

For brevity I am going to skip over my written testimony and hopefully I won't leave too much out so I don't lose the continuity of things. The dairy industry has been one of the leaders in advertising promotion. We had a promotion program for several years, namely through the ADA, and then it was the various regional promotion programs and they have all generated a feeling of confidence for the dairy farmers for advertising and promotion. I think that was one reason why the Dairy Promotion Act, the referendum on the promotion program, why it was passed, that and the fact that the dairy farmers could see what the increased funding that was provided by that, the effect that it would have on promotion and for that reason I think that we should continue with this program. If I might go back to the written text a little bit. The current programs and the allocation of funds appear to be working quite well. Since the establishment of the mandatory 15 cents per hundredweight deduction on all milk marketed and the National Dairy Board, the consumption of milk and milk products has increased about 3 percent each year. I think that's a pretty significant fact in itself right there. This year production is up even greater than that and when I was putting this together the last month I had figures available for was April and it showed an increase in 5 percent over April the year before. Much of the success of this program is the fact that I think it is directed by the farmers and that it comes from the grass roots and it's accountable at the grass roots level to the dairy farmer at home and I think they should be continued in the future.

The primary purpose of advertising, promotion, and educational programs is to help increase the market demand for milk and milk products. The degree of success of these various programs determines the return on investment of 15 cents per hundredweight on all milk marketed. These programs are successful, consumers benefit by having a more nutritious diet, dairy farmers benefit by having a higher level of income, and the taxpayer benefits by less tax dollars being utilized for Commodity Credit Corporation purchases of surplus.

Even though the present advertising and promotion structure has resulted in an increase in dairy product consumption, further improvement can be made. One such improvement would be the merging together of the functions of the National Dairy Board and UDIA. There appears to be little justification for two groups operating on the national scene. Efficiencies could be realized in collection of funds and advertising and promotion efforts if they were coordinated by a single organization on a national scale.

Within the single national organization concept, however, there is still a viable place for regional and local units. Consumer preferences are different in different parts of the country and these regional differences must be recognized in determining the appropriate advertising and promotion campaigns to be utilized. In addition, consumers do not

respond to advertising and promotion programs in the same way in all parts of the country. In order to be more effective, programs must be regionalized to recognize the regional differences of consumers in the United States.

At the present time 12 of the National Dairy Board designated regions support a national fluid milk campaign with the exception, of course, being the west coast region, and dairy farmers on the west coast have established an effective fluid milk promotion program in which they have established equity and have consumer recognition. With consumer response that is being experienced and producer accountability that is appropriate, there appears to be no logical reason to change that program. Fluid milk promotion may be more responsive to regionalization in advertising and promotion efforts, which further justifies leaving the west coast region as is.

All 13 regions are participating in the national cheese advertising program. The same is true for butter. This may be because butter and cheese are considered more a national commodity than fluid milk.

Economic studies that have been conducted in the area of generic advertising suggest the message frequency is more important than theme line in registering consumer response. Since the objective in generic advertising is to increase the market, the consumer message will basically be the same. In contrast, the objective of brand advertising is to increase the market share for a particular brand in the existing market.

One of the major challenges faced by generic advertising is to maximize delivery and that's why we use primarily television. That's where you can get the most bang for your buck as we say and in order to maximize the effectiveness of the national advertising program, additional advertising and promotion support at the local level must be implemented. One example is point-of-purchase advertising and promotion material that complements the national television network campaign. That is something that can't be done on the national level, it has to be done on the local level and that's one of the reasons that we still feel it is necessary to maintain the existing order in that way.

Much of the success in the dairy industry's increase in consumption has been the result of its creativity and its innovation. One such example is the development of the "REAL" Seal program. I imagine everybody here is aware of the "REAL" Seal program and its effect. You can—I have a "REAL" Seal pin that I wear on my coat and anywhere I go people recognize the thing. They go yeah, I know what that is. They will bring it up and the people know that it stands for a good wholesome product that's nutritious and that you are getting your money's worth for what you are paying for.

In turn, because of the importance of labeling, this is on page 4, labeling, additional emphasis should be given to products that contain a major portion of real dairy products, but also contain a substantial portion of imitation dairy products. The recent ruling on frozen pizza labeling is such an example. Consumers have the right to know what is in the products they are purchasing. Small letters on the side of a package is not sufficient to give consumers the protection they are entitled to in product purchases. I think this was

brought up earlier. I think that this needs to be looked at for them. There has been some discussion—shall we say animosity between us and other commodities, other farm commodities—but I would like to point out the fact that we, in advertising promotion have been able to work with the beef group. We have recently had a promotion program, Build the Perfect Cheeseburger which was funded only by us and the beef promotion board. Locally here in Missouri we have a Missouri beef promotion agency and we at our local level, at our local advertising promotion group, have jointly funded some promotion with them. Right now on the radio there is a spot playing that is jointly funded by us and the Missouri Beef Producers and I don't think that things are as black as they are being painted. I think there is an opportunity to work together in the future and I see that as a way for the dairy farmer and all farmers to spread their advertising dollars through joint advertising.

I believe the accomplishments that have been made since the mandatory 15-cent deduction for advertising, promotion, nutrition, and education of milk and milk products initiated in 1984 is only the beginning. We must not sit back and marvel at our accomplishments and neglect the future. The Food Security Act of 1985 contained provisions designed to bring milk production and milk consumption into balance. Official USDA estimates project milk production in 1987 at 1 to 3 percent below 1986 levels. This will mean the income for the advertising and promotion of milk and milk products will also be down between 1 and 3 percent during 1987. Decreases in available funds could jeopardize some of the gains in consumption that have been made. For this reason consideration should be given to increasing the 15 cents per hundredweight to a higher figure. Even though the present deduction is generating \$200 million per year, this amount is only a fraction of the expenditures being made by the soft drink industry and the beer and wine industry, just to mention two. Dairy farmers must continue to build on the successes obtained in the past few years through the advertising, promotion, and education of milk and milk products.

The Food Security Act of 1985 provides for a 25 cents per hundredweight reduction in the support price on October 1 of 1987 and additional decrease of 50 cents per hundredweight on January 1 of 1988, 1989, and 1990, depending upon the level of Commodity Credit Corporation purchases. Provision should be made to provide that a portion of these decreases could be earmarked for the advertising and promotion of milk and milk products. Consumers and producers alike would benefit more from funds being utilized in this manner than just reducing the price support level and income of dairy farmers. If such changes are made to allow for an increase in the present 15 cents rate, the present relationship of allowing up to two-thirds of the funds to go to state and regional and one-third to national should be maintained.

The increases in dairy product consumption that have been obtained since 1984 prove that advertising and promotion programs created and implemented and supported by dairy farmers at the grass roots level have been successful and future programs should be based on these proven principles. It is imperative that the dairy farmers continue to ad-

vertise and promote their own products, that they continue to be accountable for the expenditures being made to increase dairy product consumption, and that the total dollars being spent be increased. Other efficiencies can be generated by the merger of the two national promotion organizations which would eliminate duplication of effort and services, but at the same time would continue the effectiveness of the programs implemented by the National Dairy Board, UDIA, American Dairy Association, National Dairy Council and DRINC.

Gentlemen, I would like to thank you again for your attention and will answer any questions you might have.

Mr. Chairman: Thank you, Mr. Stokes. Dick?

Mr. Shade: Doyle, I compliment you on your preparation time. Your testimony was very good. I would like to look at a slightly different subject. We all agree that the 15-cent promotion has been very beneficial to our program. In addition to that, perhaps the chief beneficiary along with us has been the U.S. Government. They have not had to purchase this 10 percent they would have otherwise. Yet we still have the surpluses and producers don't see the effect of promotion in their price. We have been pretty patient so far and we think the program is great, but would we be in danger of losing the program if we do not down the road see some representation in price?

Mr. Stokes: Well, I believe that we have seen the reflection in the price. Last fall the price of milk moved above expectation, primarily due to shortage and part of that was created by the fact that it was, the increase in consumption of milk which I stated during my message. If I understand part of your question right, are you saying that if we do get supply management and we bring our problem under control there could we do away with promotion, is that part of your—?

Mr. Shade: No, no, not at all. How long can we go with these surpluses and still have favorable referendums? I am a little fearful that we can't go indefinitely without some response, substantial response, I wonder if you had any thoughts in that area?

Mr. Stokes: Well, maybe I am not fully following your question, but I do believe that we do have the facts that prove that we have enhanced the price to the farmers because we have removed products through the way it should go, to the consumer and as such we have been able to capture that price back from the marketplace and primarily a large increase was in fluid milk consumption where our price is more favorably influenced than any other place and I, I know it has been reflected in my check and it has been reflected in the checks of many of the dairy farmers here, the fact that we have removed these products from the market, from the government purchases through the way they should go, through the marketplace.

Mr. Williams: Doyle, down in Florida we have had an advertising program for a long, long time. I don't want you to feel that California is the only one who has a top-flight program. We have one but I have also seen a lot of results. We felt that the national program was doing a really great job and were really riding along well. Lately I understand it has been

having some wheels coming off. What do you think we could do to get the two boards working together?

Mr. Stokes: Well, at the present time I think it would take a little bit of time. It would be nice to see it in effect immediately but I don't see it in the near future, but I would hope that it would be within the year at the most but the primary thing I think would be the people, keep the two groups working together and helping each other. We are working together on a joint promotion program as you are well aware of and funding of various projects but there is a lot of duplication taking place that could be eliminated and in deference to both of you gentlemen we here in Southwest Missouri have our own promotion program in place before the national program. The Southwest Missouri dairy farmers of Mid-Am had voted a 1 percent voluntary reduction in their milk check in 1980, I believe it was, I wouldn't stand on that year but back in, sometime there, it was voluntary and we have seen our milk consumption move up with our increased funding. We have reversed the national trend in our part of the country with this additional funding at a time when everybody else was still going down, we reversed our trend in the southwest area, which is part of it so we do know it would work.

Mr. Williams: The more promotion the better?

Mr. Stokes: Right.

Mr. Chairman: I would like to put promotion in perspective and don't get me wrong, I am a promoter of promotion. However, of the 3-percent increase that we have had for 4 years in a row,—how much of that do you attribute to promotion and how much do you attribute to the general improvement in the overall economy?

Mr. Stokes: We, that's kind of a moot point there when you say general increase in the overall economy because there are some of us here that wouldn't agree to the fact that the overall economy has improved that much. True, in isolated areas, and we won't get into enumerating those, it has improved but in other portions of the country the overall economy hasn't improved all that much. In fact, it has degenerated and the fact that the average annual income of the U.S. consumer has declined in the last 4 years and I forget now from what figures and I couldn't quote them to you but they have declined so if the average annual income has declined how can you say that the economy is improved and how could you say that that has increased milk prices? I would say with the decline in annual income and the increase in consumption you have got to have something to base that on and I think it's promotion.

Mr. Chairman: With that, thank you, Mr. Stokes.

Mr. Stokes: Thank you for your patience.

Mr. Chairman: Our next witness is Earl Darnell.

Mr. Darnell: Thank you very much. I am a dairy farmer from Cabool, Missouri. I have been a dairy farmer all my life, lived in this area all my life and it's an honor and an opportunity to appear before this group that will meet in Washington, D.C. within the next year and carry some of the input that we have made here today, perhaps get some fair prices for the dairy industry. Frank Farmer went over the price

support controversy and there is a controversy over price supports that's being waged. We have had price supports in the dairy industry since 1949 and there are a lot of efforts to dispense with the price supports and to come up with alternative programs, and sometimes I feel that to understand the benefit of price supports they need to study the history of the price supports. It appears to me that about 1980 when the production got a little bit out of hand and the milk surplus began to grow there was an impulsive move made to dispense with price supports. Of course the Congress wouldn't have that, it's been losing ground a little bit every year from the old parity concept that we lived with for so many years. I have a fact sheet from the U.S. Department of Agriculture and this fact sheet covers the price support program back to 1949 through 1979, well, actually through 1984, and there is some interesting history here. During the 30-year period between 1949 and 1979, a period of 30 years, parity ratio for dairy farmers ranged from 75 to 90 percent of parity. The cost, the entire cost for 30 years, was 9.6 billion dollars to the government. It's interesting to note that in 1952 and 1953 dairy farmers reached \$4 per hundred for their milk but according to that that was 90 percent of parity at that time. Then it goes on down in 1966 and 1967, milk reached 4.11. From 1952 and 1953 it dropped back into the \$3 range and all this time the parity ratio remained in the 75 to 90 percent area for the farmer. In 1966-67 the farmer was receiving \$4.11 for it and that translated into 89 percent parity. Then when you get down to 1978 and 1979 the farmer was still getting 87 percent parity and \$10.86 for his milk. That was the end of the 30-year period. Well, at that time in 1980 the cost, now in that first 30-year period the total cost was \$9.6 billion. Then there were some factors that became involved in the industry, not in the dairy industry entirely, but in the farm economy that had some effect on milk production that created a glut of milk. In 1980 to 1984 this glut, and the cost of it to the government snowballed, it reached, well, it doubled in that 5-year period from \$9.6 billion to \$19 billion. I mean there was a \$10 billion increase in there, and some of the reason for this was that we had some grain war costs. The grain, the export fantasies of the 1970's didn't materialize. We made cheap grain and we made cheap beef and we made cheap pork and all these people went over into the dairy business. The boycott with the Russians in 1979 hurt the grain market and that increase was cheap grain, it increased—the dairymen increased their production with also the increase in the other areas in the farm sector moving into the dairy business. This created a glut but instead of looking at the entire history of the thing, of the program and making some adjustments at that time, President Reagan proposed that the price support program be eliminated eventually. Congress is going to have that deal to eliminate again but to eventually do away with the price support program and we that have been in the dairy business for a long time have seen what the price support program has done. During that 30-year time when it cost the government \$9 billion is all, and in that \$9 billion when they spent \$1 in the support program they got \$1, they got a product in return, it might be milk, it might be butter, it might be cheese but they got something in return that they could use somewhere it seems to me for export enhancement or what have you. It wasn't something that was thrown out the

window but during this 30-year period of time—I lost my line of thought for a minute. During this 30-year period of time the consumer never had any food shortages, she always had a product on the shelf at a fair price. There were no food lines and no shortages and the farmer was getting a parity price for his products so in theory the program, the price support program, has worked pretty well, both for the farmer and for the consumer.

Now, for the farmers to survive during the next decade I feel that there has to be a farm program that provides a profit achieved by parity price supports, that there has to be production control. That's something we never had, and we have to have a program that has a surplus reduction vehicle. We have had two of those, the milk diversion program and the whole herd buyout and I think with those three components you can have a program that will keep the dairy industry happy and healthy and you can also keep the economy healthy if you have a healthy food industry.

Mr. Chairman: Mr. Darnell, could you start summarizing?

Mr. Darnell: Well, in summary, I mean if we are in favor, that's what we need, that's the program we need, that's the program we need to put in Congress, that's the specific program. The program that has a price support based on parity with all production controls and with the surplus reducing the vehicle to handle any surplus that would occur. That's in the specifics.

In general, I think as you gentlemen approach the Congress, as you approach with the specific dollars and cents for programs, there needs to be a conveyance to the Congress and to the people of this Nation of the vital role that agriculture plays in the inter-related economy of the Nation. Sometimes I feel they get the impression we are coming up here for a handout and I talked to some legislators recently who told me you have to give something in this game today to get something. Well, I think there needs to be a change of attitude or an understanding of attitude that the farmers have given through food and quality food at a lower price. Gary Harper in *Missouri Ruralist* said that food wage ratio is 10.9 percent now. That it takes 10.9 percent of the housewife's disposable income to buy her food. Now that's down from 16, I have heard 16, I have heard 16 today but in the July issue that's what Harper said and when the consumer can buy her food for 10.9 percent we have given something, we have given a lot. We have lowered our standard of living to do that. We are living at 50 percent of parity prices. We are depriving our children of education and health care to do that. We have given and it's time for them to give too, it's time for them to raise price supports with production controls and you can control any flood of milk that will occur in the future, whether it be from new technology or what. Now this is a new concept, it may involve oases and it may involve some difficulty to work out but along with price supports and production controls and with a supply-reducing vehicle you have all the equipment you need. Congress has all the equipment they need now to straighten this thing up and it might do well to let these people understand that our economy is going to continue to deteriorate as long as the farm economy deteriorates and you can see that has happened to the farm economy when we get 50 percent of parity over the last few years. We have seen farm banks go

down. We have seen the farm credit system in trouble. We have seen implement dealers with tractors on their lots because at 50 percent of parity we cannot spend. Some of us can survive that don't have a lot of debt load, but we don't put money into the economy, we don't buy new pickups, we don't buy new tractors, we just go along and it should be understood, they should understand this, to help us receive a fair price for our product and our risk and our labor and our investment we'll in turn help them. There is a limit to where you can abuse the farm sector and you can continue to abuse it and you will see the rest of the sector's labor start to come down and you begin to see that. You'll begin, you'll start to see profit margins—

Mr. Chairman: Mr. Darnell, start your summary, you are starting to get repetitious.

Mr. Darnell: So my plea is to you to approach the Congress on our behalf with these ideas in mind.

Mr. Chairman: With that we thank you.

Mr. Darnell: Okay, thank you.

Mr. Chairman: Are there any questions?

Mr. Williams: No.

Mr. Chairman: We thank you for your testimony.

Our next witness is Marvin Petty.

Mr. Petty: I'll try to be brief and get through this as quickly as I can. I am Marvin Petty, a dairy farmer from Ava, Missouri. I am also a member of the Southern Region Board of Directors of Associated Milk Producers, Incorporated.

I appreciate this opportunity to comment on the need for change in U.S. dairy policy. The work of the Commission is, I believe, important to the future of every dairy farmer in the country. I wish you well in your deliberations.

The basic structure of dairy policy—the price support program, the market order program, the system of import controls and the ability to undertake joint marketing efforts granted farmers by the Capper-Voilestead Act is sound. There are improvements that can and should be made to meet changing conditions. I doubt, however, that wholesale restructuring is needed or that it would be beneficial.

The Dairy Price Support Program and the Commodity Credit Corporation purchase program used to carry it out need to be continued. In the process we should return to some type of indexing to establish the price support level. Prior to the 1981 farm bill, the parity index was used to set the support level. Critics of that system charged that parity did not represent the costs faced by farmers in producing milk. The present system—essentially negotiations between Congress and the administration every 4 or 5 years or whenever new legislation is written—doesn't reflect the cost of producing milk or anything else. Something better is needed.

The House did include a dairy parity index in its version of the 1985 Farm Bill. This might serve as the starting point for future efforts in this regard.

The announced price support level has not been achieved except when milk production declined due to the diversion

or termination program. This is due largely to the use of inadequate processing margins used in setting the CCC product purchase prices. The current margins were established in 1979. Since then virtually all plant costs have increased. This failure to achieve the price support level in the market has cost dairy farmers hundreds of millions of dollars since 1980 and must be corrected.

Since 1984 dairy farmers have experienced the effects of two short-term supply management programs—the milk diversion program and the Dairy Termination Program. They have demonstrated that supply management will work to balance supply and demand, improve farm prices and reduce government costs. They have not resolved the basic long-term problem of overproduction in the dairy industry because they have been short-term programs and because the underlying causes of the problem—low grain prices and limited alternatives for resource use—have continued.

I do feel, however, that the demonstrated success of these programs provides the basis for working to develop a standby supply management program as part of overall dairy policy for the future. Such a program could be put in place when needed to stop undue, unneeded expansion. It would not be used when supply and demand are in reasonable balance.

In recent years there has been a good deal of talk about the need to make farm programs market oriented. When it comes right down to it, however, there hasn't been much done in terms of farm legislation to develop a program that identifies the needs of the market and then gives farmers the tools needed to tailor production to those needs. That is what we are talking about with supply management in the dairy industry.

In AMPI we have spent a good deal of time developing what is termed a two-tier price program that we feel would meet this need. The program would be used when estimated CCC purchases for the coming year exceed a predetermined trigger level. When in effect, each producer would receive the full market price for that portion of his marketings needed to meet commercial needs. A substantially lower price would be received on excess marketings with the difference between the two prices remitted to CCC. A producer could avoid any marketings at the reduced price simply by cutting back to the volume representing market needs.

Such a plan is simple and direct. All the producer's income would come from the market and basic production decisions would be based on market signals. Government costs would be effectively capped. While we feel this program has much to recommend it, we are committed to working with others in the industry to develop a plan which can be put in place. One of the important tasks before this Commission is the examination of alternatives in this area.

One of the major elements of dairy policy has been the system of import controls put in place under the authority of Section 22 of the Agricultural Adjustment Act. These import limits have prevented the use of the U.S. market as the dumping ground of world dairy surpluses and are essential to avoid this in the future.

World Dairy product prices are determined by the export subsidy and other programs used by major exporters to move their products into world markets. Right now, USDA reports the world price for butter in a range of 34 1/2 to 50 cents per pound, cheddar cheese at 40 and 3/4 to 54 1/2 cents and nonfat dry milk at 33 1/2 to 38 cents a pound. Product prices in these ranges translate into farm milk prices of \$3.50 to \$4 a hundred using the yield and processing cost factors USDA uses in setting the CCC product purchase prices under the price support program.

This is what we would face in the case of "free trade." Right now, U.S. trade negotiators are telling us and the rest of the world that Section 22 and dairy import limits are on the negotiating table as part of a new round of trade talks. The idea is that we would give up these and other trade limits and our trading partners would abandon their export subsidies and trade barriers. This sounds vaguely what was being said 15 years ago when the Tokyo Round of trade talks started. That resulted in a doubling of U.S. cheese import quotas but hasn't gained the markets for other products anticipated.

Another major trade concern that must be addressed is the continued free flow of casein into this market. USDA has said this adds \$84 to \$300 million per year to the cost of the price support program, yet nothing has been done to slow the growth. I would urge the Commission to address this question in its recommendations.

Attached to my statement are a number of tables and charts that expand on points I have made. I hope these might be helpful to the Commission. Thank you.

Mr. Chairman: Thank you. Are there any questions.

Mr. Williams: I don't know whether you happened to read the Wall Street Journal last week. On the front page on the right, it discussed the CCC support program and they specifically talked about a German farmer who sold 90 percent of his produce to the Federal Government. Ten percent stayed with the product which gave a return price of \$1.40 a gallon under supportive price deals. They get a little bit more over there than they do here.

Mr. Petty: Well, I don't know what your question is but the way I understand it—

Mr. Williams: It's not really a question but more of a comment.

Mr. Petty: Well, I think it might be well to comment too, when the CCC is talking about the support price, that their support is the same as we are here, they are subsidized but they measure theirs in terms of, I think it's the European economy unit, it's not on each one's value of their dollar or their pound or their lira, or whatever you want to call it, it's economic units in the CCC market and so when you compare their support price to the support price that we have here in the United States it's not the same comparison.

Mr. Shade: Mr. Petty, what would you estimate the excess price to be under the two-tier program?

Mr. Petty: The excess price?

Mr. Shade: Yes.

Mr. Petty: The excess—

Mr. Shade: I'm asking what you would estimate the price to be for excess milk.

Mr. Petty: Under the two-tier program it would be substantially lower. You couldn't afford to produce milk at that rate at all, even manufacture milk so it would be down probably within the world prices of milk would set the price of that excess milk.

Mr. Shade: Under the two-tier program how would the next two returns compare to the current program that has been worked out?

Mr. Petty: Well, there are a lot of factors that haven't been figured yet until they're in place and then we know whether to go with it or not but the net to the producers will be more and the cost to the government will be way down and I think the industry will be a lot more stable with a two-tier price program.

Mr. Chairman: I have one question. You spoke a little bit about processing margins on page 2. There are two ways to get processing margins. One way we use in California, and I hope the producers in the rest of the Nation never have to use it, is to raise product prices. When you raise product prices, obviously that gives the processors the ability to pay more to the producer. In the period of 1979-1981, when the stocks were climbing, was it appropriate to raise product prices? Was it proper at that time to use processing margins? Is it today?

Mr. Petty: Well, as you know, every cost has gone up since 1979. The formula that they use to establish those support prices like you say is to make use of the product. When they use the same factors now as they did in 1979, there is no way a co-op or a company can pay any more to their producers with that formula and still stay solvent. What I'm saying is that the formula that they use to plug in on the make use side of the equation would have to be adjusted up to today's costs and standards. Then the co-op would be more efficient and return more to the dairyman's milk check. It's just a matter of efficiency.

Mr. Chairman: Well, I understand that. My understanding of USDA's response whenever there was a request to address a processing margin was that on a year-round basis the average price paid for grain manufactured milk did equal the support price. Your statement was that you objected to the fact that part of the year the price was actually lower.

Mr. Petty: Well, there are times of the year, and especially on flush periods of the year, when utilization is down and your cost factors are still plugged in the same that there has to be sometimes when it's below support price.

Mr. Chairman: Is that not an acceptable situation for that short period of time?

Mr. Petty: No, I wouldn't think so. I mean there are a few markets that use the takeout and pay back to the Louisville plan on your flush. You're trying to balance out your flow. The price and utilization side of it is way down. The price on the manufactured milk, using the support formula, would not be up to support level unless they flood the market.

Mr. Chairman: If it was not acceptable to have a price below the support price, would a system that says the support price is the price year around be acceptable either?

Mr. Petty: No, because when you have high periods of utilization and the price of milk goes up from supply and demand working in the factor, then the support price shouldn't be the price for milk.

Mr. Chairman: The market should price it?

Mr. Petty: Yes.

Mr. Chairman: But the market may drive it one way and never the other.

Mr. Petty: Well, it's true, when you have a tendency of over-production and low utilization and low yield on some of your manufacturing that the efficiency is to plug the market, to keep the paychecks up there, even though the market is not the indicator that that price is due to the economic conditions. Well, there are just times when it's to the producer's interest to use a little borrowed money to keep his milk check on a more even keel.

Mr. Chairman: With that we thank you for your testimony.

Our next witness is John Hitchell.

Mr. Hitchell: My name is John Hitchell. I am employed by The Kroger Co., the Dairy/Bakery Division of Cincinnati, Ohio as division manager for milk procurement. The Kroger Co. is pleased to have this opportunity to comment on the future of the dairy industry. To begin, The Kroger Co. endorses the concept of the price support program when used as a "safety net" to insure price stability. However, in past years, the support program has been utilized to enhance farmers' income which has encouraged the production of more milk than is needed for the commercial market. With the adoption of various supply management programs the industry has recognized that this is in its best interests to decrease surplus milk production and reduce government support of dairy products. To partially correct this problem, The Kroger Co. supports the provisions of the 1985 Food Security Act which reduces the support price 50 cents a hundredweight in the years 1988, 1989, and 1990, if CCC purchases exceed 5 billion pounds in milk equivalent. If the farmers can reduce production to meet this level of government purchases, they will be helping to move the industry to be production oriented and consumer oriented and improving the financial return on the sale of their milk.

Another solution to the oversupply problem is to encourage the industry to become market oriented. One of the success stories in the dairy industry has been the sustained increase in commercial sales of dairy products. The 3 percent increase in commercial sales, which we have enjoyed for 3 years, has helped to reduce already large CCC purchases and increase revenue to the dairy industry. All segments of the dairy industry benefit when our products are sold to the consumer and not to the government. Our industry must continue to be innovative and creative when it comes to competing for the consumer's food purchases. When proven safe, I would like to interject here, for human and also for animal health, new and efficient production techniques on the farm and processing techniques within the plant should

be implemented so the dairy industry can continue to be economically competitive in the food industry. While being innovative, we must also be aware of what consumers prefer when purchasing dairy products. An issue for debate within the dairy industry has been increasing the legal limit of solids nonfat in fluid milk similar to the California standards. At this time, The Kroger Co. is opposed to increasing the level of solids in fluid milk. To our knowledge, there has been no research done to determine if one, the consumer desires increased solids in fluid milk and two, they will pay a higher price to receive these higher solids. It is ill advised to advocate this change without first conducting research. We could produce a product the consumer does not want, is not willing to pay for, and reduce sales of product which has been steadily losing its market share in the beverage category for a number of years.

In addition, a thorough study of existing regulations and legislation should be made to determine if they serve as an impediment to increased sales of dairy products. The elimination of provisions which restrict trade, product innovation, or expansion of products into the dairy product category should be encouraged, while still assuring a safe and adequate supply of milk and milk products.

The Kroger Co. supports the Federal milk order program in achieving its goals of providing an adequate and wholesome supply of milk for the consumer. Both the farmer and processor have benefited from the relatively stable market conditions the orders provide. However, as we all are aware, there have been many changes in the conditions under which milk is marketed and the order program has at times been slow to recognize and react to these new conditions. The program needs to react timely and expeditiously to changing market conditions. In addition, the program needs to improve in accomplishing one of its primary goals, to provide to fluid consumers an adequate supply of wholesome milk at a reasonable cost.

Provisions should be enacted under the orders which require sufficient amounts of milk to be available to fluid plants at a reasonable cost. Producers who benefit from Class I dollars in marketwide pools should be required to meet the Class I needs of the market when necessary. The order program needs to recognize the regional differences in milk production and marketing and to enact provisions to encourage milk to flow from surplus to deficit markets. A change to allow milk to transfer between market at Class I utilization without going through a plant will help increase the amount of milk available for fluid use in deficit markets.

To summarize, The Kroger Co. supports future dairy policy which encourages future technical innovations, reform of unnecessary governmental regulations and a basic philosophy which is market oriented and not production oriented. The continued growth and economic well-being of our industry dictates this type of policy be enacted. In the future, we must be positioned to meet the challenge of our competition in the food industry and the needs of consumers with products that are safe, wholesome, innovative, and economical.

I would like again to thank the Commission for this opportunity to comment on future dairy policy in the United States

and I appreciate your courtesy extended me during this presentation.

Mr. Shade: Mr. Hitchell, you are silent on supply management. What position do you think that we should take on supply management to manage our period of surplus?

Mr. Hitchell: At this time, I think we have been presented with numerous supply management programs and The Kroger Co. has no position. We would like more time to study the question. There have been a large number of programs proposed, and there is no consensus in the industry on what type of program is needed. The one situation that most people point to would be the Canadian program where the bases have economic value. We would be opposed to a program that would enhance producer income and lead again to unnecessary production.

Mr. Shade: In your business do you practice supply management?

Mr. Hitchell: In what way?

Mr. Shade: Well, that you like to maintain the supplies coming in to equal the demand that you have on the other hand?

Mr. Hitchell: Yes, sir.

Mr. Shade: That is important.

Mr. Hitchell: That is true, you need to have enough to reach our sales but we don't need to have too much perishable product stored.

Mr. Shade: And if you weren't able to control that, it would drastically affect your profits?

Mr. Hitchell: It could.

Mr. Shade: We are about in the same situation as to how to receive this.

Mr. Hitchell: Again, sir, I do not say we are opposed. I just say at this time we have not taken a position on supply management.

Mr. Shade: Thank you.

Mr. Chairman: Thank you.

Our next witness is Maurice Butler.

Mr. Butler: First of all I want to thank you for this opportunity to testify before this hearing. I will introduce myself as Maurice Butler, I am a professional family dairy farmer from Fair Grove, Missouri. I am not here representing any other organized group. I think I do represent the farmers of America between the ages of 30 and 50 years old that are struggling with debt loads and although we are not a majority of the farmers we do have a larger percentage of the production of agricultural products in the United States.

I want to make just a few short comments.

The present price and supply system that we have for dairy products in the United States or dairy production in the United States is a cruel and inhumane system to manage supply. What it does is send family farm operations to bankruptcy in order to decrease the oversupply, and takes too long to work! We need some other system. It not only sends us, the family farm, to bankruptcy but also the rural econ-

omy and our agricultural finance systems, whether they be the local bank or the farm credit system or Farmers Home Administration or whatever. For every seven farms that disappear in rural America, one business that supports or is involved in agricultural business also disappears.

My second point is I would like to see a supply management system that is geared towards a quota designed in *man* years rather than in a past history of production of a particular farm. In other words, a quota where the number of man years involved in an operation producing dairy products is geared to where that one man can produce and receive fair compensation to make a decent living. An example would be a quota per man year of 400,000 to 500,000 pounds of milk per year. If the price was say \$15 a hundred for that milk and its cost of production was 70 percent of that price, then that would leave him an \$18,000 a year income, which is just a moderate income in our today's economy.

The third point I would like to address is foreign trade policy. I would think that through research of our foreign trade partners that we deal with, the majority of them do not import any goods that they have the means to produce *themselves*; even though they may be able to import it cheaper they do not destroy their own production capabilities for the almighty dollar. One recent example of this that I have come across is Japan and rice. They will not allow us to import rice into their country where we can import it to them and produce it cheaper than they can produce it themselves. They do not do that and they protect their own production system that is already in place. An example would be in my own operation if I went to the trouble and expense and investment to produce alfalfa hay for my dairy herd and in a given year when there is an oversupply I can buy the hay cheaper than I can produce it, what do I do? Do I throw away and waste the production I have myself in order to buy cheaper or do I go ahead and use the system I already have developed? That's just an example of some of our foreign trade policies in dealing with our trade partners. We should only import what we don't have the means to produce for ourselves, the same as our trade partners do. We as family dairy farmers or family farmers in general have the right to a fair and equal standard of living to all other industries, production industries as well as service industries in this country to have a fair standard of living that they can earn at 40 hours per week and 2 weeks' paid vacation. I think that's what we deserve, equal treatment!

The fifth point is I do support as a family dairy farmer the advertising and research assessment, 15 cents a hundred. I fully support it. I also, the beef promotion assessment, I fully support that. That's all I have.

Mr. Chairman: Thank you. Are there any questions?

Mr. Shade: No.

Mr. Butler: Thank you.

Mr. Chairman: Our next witness is William Corbly.

Mr. Corbly: I want to thank you for having this, where I could have my say. I don't know that it will do any good, but I want to say my say.

I think, unless we learn from the mistakes that we have made in the past, (what happens to our industry if we don't weigh those mistakes and change the method that brought these mistakes) we are bound to make those same mistakes again. We have gone through two general national programs trying to correct a regional problem. According to all of the information that I have been able to come up with, over three-fourths of the total CCC purchases are produced by three states. Therefore those states' overproduction is the thing which is depressing the general price of milk in the United States. Those three states are affecting the price of milk in Florida and the price of milk in Texas in a downward direction, although there is a lack of product in those areas from what the reports say. That's from one of my few sources of information. I hope you will excuse my impatience, because I am a dairy farmer, a hands-on dairy farmer, a family farmer like the one that you just spoke to. You and I have a lot in common. We are out here in the water drowning and you, the Commission, are coming in a boat to rescue us. You have got all the time in the world, but we can only swim so long. If I step on any toes it's not personal, I hope. But I can only speak for my own position. I fully appreciate the promotion and advertising. I think that that is something that was long overdue when it was finally instituted. However, I think that you ought to use some of those funds to counteract the lies that have been spread. The family farmer and the farm are not being subsidized. The thing that is being subsidized in the United States is cheap food. All the people in the United States that buy food in the market are being subsidized to the point that it is a detriment to those 2 or 3 percent of the farmers that are producing it. So the subsidy is not the farm subsidy and as long as the newspaper and the news media promulgate that misconception the farm community is going to suffer. Whether it's now, or later, this is one of the things that has to be addressed, and the supply management system is basically the only effective tool. There is no question about that. The only people that are fighting that are people that benefit from the oversupply and the low price of milk, to wit, the American consumer who gets milk as cheaply now as ever, although all other prices have gone up. The overproduction in the United States is not in correlation to the population centers. Those places where there is a need, a regional and a seasonal dearth of product, could very easily be influenced to have more product made there if quota were moved. If we take any time, any point in time, any kind of quota, then let the dairy farmer either live or die with it. We can make our decision if we know what's going to come up, but we can't go on like we have for the past few years with nothing other than threats and wait to see what the next outcome will be. The quota that would be established could be established by any fair representative board. Then as producers go out of production in an oversupply area, rather than have a market price on that quota so that you are benefiting that one particular producer, have the quota go back into the dairy board, and let them move that production quota to an area where there is a lack of product. You will eventually, for the benefit of the whole Nation, and the consumer, and the dairymen, get the product being made or supplied where it is used. If we can eliminate these huge trucks, rolling up and down the highways moving our milk,

moving our milk north, south, east and west, that will eliminate some of the big expense that eventually winds up in the price. Maybe part of that can be returned to the dairy farmer. The promotion that goes on in the United States is very haphazard. It seems that we get a flood of it at some particular times with very little evident market being reached, and other times, when that market is being addressed by the television or radio, you don't have much of our product being advertised. Our product is consumed primarily by those up to the age of 20, and I think that any advertising firm that would care to step up, could name a much more effective way of reaching that group than we are right now. I thank you for your patience and I didn't mean to ramble. I am very eloquent with my cows and I very seldom get to talk with some gentlemen that if I have some effect. Thank you very much.

Mr. Chairman: It's a good practice talking to cows, I do. We are also dairy farmers. I have one question. You made a statement about products that are produced and made in the same region. Are you referring to fluid or all dairy products?

Mr. Corbly: You, any time you transport, you add to cost, and it's up to you: whether it's easier to transport it in a milk bucket directly within a short radius to its end use, or if you would rather have 18-wheelers going down the road. It doesn't make any difference, except to the person who has to pay the price. If you are talking about the company, they have a vested interest in keeping things like they are and depressing the price of milk. They have their establishments where they are. The dairymen have their establishments where they are, and what we're trying to do is get from this place, while we're starving them out, to the point where the dairymen can move to the place where they're needed, where they're wanted.

Mr. Chairman: You made that statement with respect to your transfer of quota when it went back in.

Mr. Corbly: Right.

Mr. Chairman: But I think everyone would accept the fact that the State of Florida would not need sufficient quotas so they can make all the cheese and the butter and the powder that they utilize in the State of Florida. It's not economically feasible to do it in the State of Florida, it's much cheaper to ship those products in from other areas.

Mr. Corbly: Cheaper to some company, but not cheaper to the government, to the person that buys it, or to the person that produces it. It may be economically feasible to Kraft, Mid-Am, et cetera, et cetera, but for you and me who produce it, and for those people who buy it, it is not cheaper. There is no question about it. Now the companies might wind up with some facilities that are sitting there vacant, just as a lot of these farms that you can find that are sitting out here vacant because they were in the wrong place. But if nobody came along to these companies and said well, we are going to make sure that you get to stay here and make your living here and we are going to keep you living going such as is being done by this economic system that we have right now, they would move their plants. It is strictly for the convenience of the producers, of the manufacturers.

Mr. Chairman: Thank you.

Mr. Corby: Mm-hmm, thank you.

Mr. Chairman: Is there anyone else in the audience that desires to testify? Seeing no one, we thank those who have testified and those that have attended and this hearing is closed.

**The Following is Written Testimony
Submitted to the Commission**

**Statement of Roy Boeddeher
Ava, Missouri**

I am a young dairy farmer from southwest Missouri. I milk around 55 cows and raise all of my own hay on 320 acres. Since 1979, I've been facing the most difficult time of my life trying to stay in business and raise my family. As most young farmers, I'm heavily in debt. I feel it is my duty to my fellow Americans to feed them in the future. As you probably know, most farmers are in their late 50's. It is very important to make policy that will encourage young people to follow in the footsteps of our fathers. The future of agriculture looks extremely grim to our young people. I think that a mandatory supply management policy with parity prices that will guarantee cost of production plus a reasonable profit is what will give us a strong future. The Harkin-Gephardt Bill is the answer to our future. Cecil Huff and Frank Farmer testified in behalf of my opinion today. Please consider their views. Thank you.

**Statement of Jerry Cass
Hartville, Missouri**

I support the Harkin-Gephardt bill on two-tier price support, but feel that 70 percent parity is too low and it does not deal with imports. Imports shouldn't come in cheaper than parity—what it costs to produce the same commodity in this country. Commodities shouldn't just be dairy products, but should also be beef and pork, boxed or live. Tariffs should make up the difference. I believe in parity for fair return for the family farm. I don't feel the 1985 Farm Bill in general is working. The farmer isn't getting a fair percent of the consumer dollar.

**Statement of M.C. Walters
Bentonville, Arkansas**

Thank you for the opportunity to express my views. First, the Commission should make every effort to compensate dairymen who participated in the dairy diversion program. Having milked for 25 years, we felt we could cut our production, take the \$10 per hundredweight payment, and help cut down on the surplus. We took the full 30 percent reduction; in doing so, we forced ourselves to take outside jobs to make ends meet. When the Dairy Termination Program was offered months later, we didn't have enough base to submit a realistic bid.

The old saying, something is better than nothing, would have applied if we had known that Secretary Lyng was going to accept bids up to \$22.50 per hundredweight. That is why I recommend, in the essence of fair play, give dairymen like myself a chance to possibly retire with a little something instead of selling out. After all, dairymen enrolled in the diversion program made a good faith effort to control milk production, and ended up getting stabbed in the back. If this were to happen, it would further the declining surplus, but

also mend some bruised feelings between farmers and the government.

The second matter I'm concerned with is enforcement. It does no good to pass legislation if everyone is cheating. It defeats the purpose entirely. Most farmers are hard working, honest, God-fearing men who do their best. Anyone can be lax in their recordkeeping, but any farmer who would knowingly defraud the government and backside his fellow farmers for monetary gains should be properly prosecuted.

The third matter is, the "hit it a couple of years when times are good and then quit" dairymen. I know of one case of a man milking for less than 2 years, qualifying for the Dairy Termination Program, and receiving nearly \$300,000. He helped oversupply the market, hired someone to do his milking, and came out smelling like a rose without paying his dues. For these reasons, I think a government allotment for maximum production to dairymen who have been in business for 10 years should be looked at. Also, I think a possible \$20 per hundredweight base, for veteran dairymen should be established. In doing this you could keep the rural out of farming and establish a solid base for those who really care about farm life.

Again, I thank you for this chance to express my views.

White River Junction, Vermont
August 3, 1987
Howard Johnson's Motor Lodge
9:00 A.M.

Mr. Rutherford: Please come to order. I would like to take this opportunity to thank everyone here in the State of Vermont who has worked so hard to organize this meeting. I understand it is going to be a long day with 50 or more individuals wanting to share their thoughts on the U.S. dairy industry. I will limit the testimony to avoid unneeded repetition. And while I encourage as many questions as possible from the Commission, I will also be controlling the questions so that we can make sure everybody has an opportunity to testify that would like to. I will attempt to help the court reporter by identifying individuals' names as much as possible to make her work as easy as possible. So we are very happy to be able to open the hearing with Congressman Jim Jeffords, he needs no introduction. Congressman, I do want to say on behalf of dairy farmers and consumers alike, we certainly thank you for all of your help and support.

Congressman Jeffords: Thank you very much. It's good to see you all again. I met you all before as you well know and I expect we may see each other again before time goes too far along. I want to welcome you to Vermont. We arranged a little rain for you to show you why we have good forage crops, that gives us the advantages that we have had over the years. In the good old days, of course, Vermont used to have more cows than people but unfortunately that's shifted around a little bit. We have still our advantages in a sense of our nearness to markets but also a disadvantage we find now as the nearness to markets means the people who notice the beauty of Vermont come up and buy out our lands and give a little competition to our farmers making it a little bit more difficult to produce as we used to do. But notwithstanding that, we still have 90 percent of our ag products which is agriculture, say, close to a third of our economy comes from dairy so it's very important to us. I am pleased to be with the Commission. There are some very critical issues for us to face, and I would like to talk about three of those today. I want to emphasize the success and the importance of promotion and hopefully, we will improve our ability to promote; secondly, some of the forces that are working under the present multiple price system which gives me some concern, which I will spend a little bit more time on than on the others; and then the circumvention of our present import quota program and its present cost on operating the system.

First of all, as far as promotions go, since its authorization of the bill in 1963, the National Dairy Promotion and Research Board funded the 15 cent level and has been instrumental in its successful campaign to increase consumption and we have done very well at that, up 13 percent during the 3- or 4-year period that we have had this law in effect. The evidence we had though when we went and created the law was that we needed 25 cents rather than 15 cents in order to do the job adequately, and I would hope that somehow some way in the future we will find our ability to get ourselves up to that 25-cent level. As you know there are prob-

lems threatening right now, that has to be done, and I would hope that the Commission would take a look at how we can improve in the promotion area. I just noticed the other day there was an article in the *Washington Post* about orange juice, that they now have a product which supposedly has better calcium content and in more digestible form. We have got to also take a look at how we can put some money into research and product development. As you may remember in the last farm bill, if it doesn't have any funding, it doesn't do much good so some day we have got to try to find some way to be able to do our product research in a little bit better form than we have in the past.

I want to talk a little about a basic problem which we are faced with today, that is the problem that we are going to have under the present program we expect—how we price the milk. I have a chart over to my left which gives an idea of what is going on in the Nation and some of the problems. As you may remember, we created a 5 billion pound trigger. I argued for a 6 billion, unfortunately it didn't succeed at that time. The problem with that figure of 5 billion pounds is twofold, first of all it's probably too low to start with. We realize although we have never been able to, I have been here 13 years I am still trying, to find out how much the Government purchases are, Charlie somehow keeps that so close to his vest that I haven't been able to get to it, it's somewhere around 3.5 billion pounds. If you take 3.5 billion pounds, you subtract that from 5 billion pounds, that's only a 1.5 billion pound balancing wheel that we have in the country. If you took a look at the total production, that's only about 1 percent of total production, that's if you have a balancing wheel. It's probably just not big enough to start with. So I think we have to, that we can argue about what that figure ought to be but we, first of all, are trying to find out and I am dedicated to getting to a confession or some figures to let us really know what the figure is on government purchases but my guess is right around 3.5 billion pounds. That does not take into consideration the Chacratte program, actually the total government utilization over the years when we had the surplus up around 11 billion pounds so we are going to be cutting back. In fact, we are cutting out the cheese giveaway programs which may help in our cheese consumption.

The second problem we have though is one which the chart is trying to emphasize, that is the question whether or not the program which basically was in balance east of the Rockies is a program, which has worked with the M & W and the CCC purchasing program, is going to work as production continues to increase on the west coast. There is a whole different cost of production out there and there is a serious question in my mind as we take a look at what is going on as to whether or not we can have a price support system with the present market circumstances and production circumstances which is going to lead us into a system of stability. We take a look at the chart, it shows that 1984,

1985, and 1986, the first column on each of these years is the percent of total production and the second is the percent of CCC purchases. Now, as you can see, the green is on the east and well, I guess we use the northeast, Midwest is somewhere in between and the west coast. If you take a look you will see what has happened. The percentage of total production on the eastern has gone up but nowhere near as rapidly on the west coast, but if you take a look at what has happened to the percent of CCC purchases, you can dramatically see that as we have gone along, we have practically no CCC purchases now where the west coast is up approaching 40 percent. It's 38.7 percent for this year, CCC purchases, and if you realize they have only 15 percent of total production, then you can see that we are beginning to have a problem. We have a problem. And that's going to pull the trigger whereas the rest of the country would not pull the trigger so it's a serious question as to what we do. And if you realize that the two major states out there are not under the Federal Milking Program, we certainly have got to take a close look at what are the ramifications of that and yet the dollar per hundred dollars weight that they get for their milk is less than other areas so it's a complicated situation. But the end result is going to be that if we key our program, this is the point I want to make, if we key our program to that 5 billion pound trigger or some other trigger, you are going to end up essentially with lowering and lowering the price until such time as you have no price support system east of the Rockies. You are just going to have a price support system keyed to the west coast production and the price which will bring their production under control. And if their cost of production is that much less than other areas, then we are essentially not going to have a price support program in the next 2 or 3 years if we don't do something to try and balance out that situation. That's the most serious problem that we face and the most serious problem that I would urge you to take a look at.

Finally, I would say we are having problems and perennial problems with the circumvention in the dairy import quota program and how we are going to handle that is pretty much up to the Congress. I did meet with Congressman Gibbons who is the Chairman of the Subcommittee on Trade and bring these problems to light. We have had the casein problem which we are all well aware of. Now we have the chocolate program which is being used as an end run of our import quota system. We used to have some 7,000 pounds quota and we are getting millions of pounds in both the sugar and the whole dry milk coming in by that little loophole which we are trying to take a look at, but the whole quota, import quota system is something that we have got to take a look at. We are going to need all the help we can from you to try and preserve what we have as we go down the end of negotiating prices so with that, I know you have a lot of witnesses this morning so I tried to keep to my 5 minutes. I didn't do so badly so I will be happy to answer any questions you might have.

Mr. Rutherford: Thank you, Congressman. Are there any questions?

Mr. Dorn: Congressman, when you look at the west coast and I will speak mostly for California, in the relationship between the Federal program and the state program have

we created too much profit in the manufacturing side of the program for plants in California?

Congressman Jeffords: I don't really know the answer to that, that's hoping that you and others will shed some light on that, but I understand that the make allowance, for instance, is very much larger than the make allowance for the other area in the country, that may be a part of the problem. Whatever has to be done in order to bring a balance to the system, I really don't know, that's what I hope this Commission will find out. I wonder whether it's the relationship of the state system. I know certainly during the assessment period at least initially, every time we take an assessment, the assessment got pushed into cost of production whereas the rest of the country came out of the profits or the lack of profits or out of the losses or added to the losses, however you want to look at it, so I think that certainly is a problem but I don't know how serious that one is. But I do know that obviously if the CCC purchases keep going up and if the production keeps going up as related to that and we have straight pipers that plan, that just buy and sell right to the government, we have a problem that needs to be solved. Now, I don't know what, of course, the whole billing border system works so differently I think than the California program with differentials and all that so we have tried to balance it out. And you just have two states out there that are working on a different program than the Federal program and I don't understand all the workings of it but that's what has got to be looked at.

Mr. Rutherford: Are there other questions? George Mertens.

Mr. Mertens: I realize a problem in the West is that there are plants that are just addressing the CCC market. I definitely feel we have to study that whole situation. I am not happy with it at all and there are different organizations that have a different philosophy. One of the addressing remarks, milk the CCC Purchases Program for all it's worth, is very irritating to me. No pun intended. The CCC Purchase Program should be a floor and only used at emergency times. And I agree with you that we have to really look at that whole situation.

Congressman Jeffords: I appreciate that.

Mr. Rutherford: Are there any other questions? Mr. Elkin?

Mr. Elkin: Concerning the chocolate program that's coming in now, I understand that Secretary Lyng, in a meeting not too long ago, said that he agrees with the dairy industry that this is a problem. Couldn't he do something about it immediately while this is being investigated?

Congressman Jeffords: Well, I don't think there is any remedy under our laws that leads us to an easy answer on these things and a quick answer. I mean it may not be easy, but I would hope that they come to take some actions fairly quickly. The sugar people as you well know are as upset about this as the milk industry, so I have a feeling that with the combination of the two we will get some results from it. I haven't had a chance to talk with the Secretary privately about it, I plan to do so. It can pull the trigger. It's a couple of hundred million pounds and that could be the difference.

Mr. Elkin: Plus it creates an unfair advantage. A couple of Canadians attended the national milk meeting last week and they reassured us that the nonfat is coming from New Zealand. The Canadians have a pooling process whereby they have a very cheap product to sell, too. Is there any way we can know for sure?

Congressman Jeffords: I don't think there is, that's of course the casein problem all over. You have got the huge surplus as they are looking for a way to end run the quota program and they have done very well at that and we are subsidizing their milk program over there now because of the casein. They don't have a casein market over there, but they sell it over here and the reason they do is because they can use that loophole in our law.

Mr. Rutherford: Bob McSparran?

Mr. McSparran: Congressman, Secretary Lyng said last week that we aren't going to lose everything from Section 22 of the GATT. It seems like every time we go into negotiations like that, the dairy industry loses more than it should.

Congressman Jeffords: Yes, of course, if you analyzed their program for the future I suppose if all the end result would be our dairy industry would be in that shape, but I don't believe the Europeans knowing how jealously they guard their dairy industry are going to let their dairy industry go practically to zero while New Zealand and our market invade their markets. So they may have some progress in getting a no-subsidization program and that sort of thing that might be acceptable, but my guess is that and my fears are similar to yours we would end up with a lot of concessions from them, perhaps in the grain. And then we would end up with none on the dairy end and we would end up with a much more serious problem than we have now. I am very worried about this. I think we have got an awful lot to lose in those negotiations, I am not at all confident. There has never been any particular program to protect their dairy industry. I am afraid that the pressures from the CCC are going to be even greater than we have in the past.

Mr. Rutherford: Congressman, we thank you very much for your testimony. And again, we look forward to working with you when we get the results of the Commission finalized. Hopefully, we can get some of the changes that are needed for the future of the dairy industry in place so that it will make all of our lives easier.

Congressman Jeffords: Just one closing comment I forgot mention, the bovine somatotropin problem, I know you are all aware of that. My main concern is that the dairy industry comes out in the end with the benefits. Thank you very much, I am going down to Farm Credit next.

Mr. Rutherford: At this time, we are very fortunate to have three of our State Commissioners of Agriculture, Ron Allbee, Steve Taylor, and G. Schumacher, with us today. If they would come forward, please. We also have Jack Kelly who is from the Department of Agriculture, Massachusetts.

Mr. Allbee: I am Ron Allbee. I want to welcome you to Vermont; it's always an honor to have some of my friends, and most of you I know, come to Vermont. It's an honor to follow Jim Jeffords who has been, and is very critical to the dairy industry in the last many years and presently. We are fortunate

in Vermont, Vermont dairy is 90 percent of our agriculture income. We are fortunate because we do have some healthy cooperatives. I think we are fortunate today because those cooperatives take an important step and that step is to form RCMA, we hope that works. I would argue before you this morning that the choices that you face as a Commission will be no different than the choices that you will face and we have faced in the last 20 years. There are some ironies in those choices because I think the choices, and I have read historic documents of other commissions, are really the choices of supply control or market. And I think there are some ironies because the industry has never been united on the issue of supply control. I think farmers even in this state differ on the issues of supply control. But there is irony because the industry hasn't embraced long-term control but they have embraced it in a crisis situation. We go back to the Diversion Program, that was a crisis response to a surplus problem. Go back to the Whole Herd Program which I worked on with Senator Leahy in the Senate, that was a crisis response to a surplus situation. I think we all agree about that. Even with the Diversion Program and the Whole Herd Program, we are next year or the year after going to be back into a surplus situation. In fact, Secretary Lyng, appearing with the Senate Committee Monday in Winoski, made such a statement before the farmers in Vermont. He expected in the not-too-short distance, in the future that we would again face a surplus situation. So I ask you in your deliberations to look at how the industry not just faces the issue of surplus; I would ask you to look at whether we need a supply control mechanism to get us beyond that surplus situation. I think we may, personally, need such a program. Secondly, I would ask you to look at the equity situation, and I won't go into detail on equity as I think Congressman Jeffords quite appropriately discussed what is our concern about equity. I just might point out that in working with the Senator on the farm bill, I personally felt that there was an inequitable situation when a state to the west of us could participate in selling huge amounts of product to the U.S. Government and yet protect itself from a policy that was meant to be neutral, to treat all farmers alike. I personally felt that if they wanted to sell products to the government, then they should somehow be penalized if they protected themselves from that national policy. That's a personal feeling on my part so I think the equitable situation should be addressed by you people. I feel that Congress will certainly try to address that equity issue as they again debate dairy in the future. Finally, I would ask you to look at the social implications of any program that you develop. Unfortunately, today in Vermont, today in New England, we have a deficit with dairy products. Some of our co-ops have to go as far as Ohio and Michigan to buy milk to supply the market. I know those of you from Ohio and Michigan think that's probably great, but we don't. We don't mind doing it on a short-term basis but on a longer term basis, we feel that we want to produce the product in Vermont and New England for our market, so I would ask you to look at how does what you recommend affect different regions of this country, will what you recommend allow us to continue to produce that product for our population? I thank you for coming.

Mr. Rutherford: Thank you, Ron. Steve Taylor, are you next?

Mr. Taylor: Very briefly, Mr. Chairman.

Mr. Rutherford: Steve, I understand you are a dairy farmer?

Mr. Taylor: I am, I milked cows this morning.

Mr. Rutherford: That doesn't make you any more believable a politician. I just thought it was worth mentioning anyway.

Mr. Taylor: That's fine. I certainly second what Ron has just said and I would like to address my remarks very briefly to the demand side and the promotion program. I heard the Congressman mention the possibility of increasing the dairy promotion checkoff or assessment up to 25 cents from 15 and as much as I dislike any more money coming out of the milk check, I do support that approach. I think with that ought to come probably greater emphasis on the evaluation of the expenditures of the dairy promotion funds. And I would suggest very strongly that in a national dairy policy in the part that would address the use of mandatory collected funds, there be a fairly elaborate mechanism for evaluation of the expenditure of that fund. I think the dairy producers would feel a lot more comfortable with the use of that money. We certainly can use what the money is being used for, but the idea of it being used most effectively I think is an extreme concern. And I would hope that in whatever policy recommendations that you people develop, that you would provide some attention to the idea of evaluation of expenditure of promotion funds.

Mr. Rutherford: Gus Schumacher, State of Massachusetts.

Mr. Schumacher: I think it was just last week that we were all up in Vermont to meet with a very similar, very strong national group of 11 senators, including Senator Leahy and Secretary Lyng. Ninety-six percent of the discussion was on dairy, so there seems to be a very strong interest in dairying here in the northeast. I would like to talk very briefly on three things. I would like to talk about structure, about trends, and a little bit about the longer term. Massachusetts is a small dairying state. We have about 545 dairy farms left. Seventy percent of our tillable land in Massachusetts is in dairying. It's very, very important, our most important sector in terms of tillable agriculture. We are losing farms. We went down from 35,000 farms to a little over 7,000 farms, and we are now picking up a few, mostly in vegetables. But the average vegetable farm is 26 acres, and the average dairy farm is substantially larger than that. It's a very, very important industry in our towns. We have, as a result, several programs. We differentially tax our farms to benefit agriculture. We tax at what we call "61A" amounts, and that's a substantial benefit to farmers in Massachusetts. Secondly, we have something called the Agricultural Preservation Restriction Act. Over half the farmers participating in that program are dairy farmers. We have invested nearly \$45 million to date, and we're expecting the Legislature to give us \$30 million additional. We expect that about 200 of our 500 dairy farms will be benefiting from that program. Third, we have a very strong and very competitive dairy processing industry. We have something on the order of 20 handlers. Four or five of them are major handlers. We process a lot of milk in the State. The State has also invested \$30 or \$40 million in those producer-handlers. They are very modern. They are very competitive. They produce a variety of products, including juices and water. We intend to keep them modern and

competitive. The State has taken a very, very active interest in our dairy sector, both at the production level and at the handlers' level. We would like them to continue to that result. However, with the federal Whole-Herd Buyout, we really took a whack. We lost 66 dairy farms in that buyout, mostly our larger farms. This created quite a controversy in our state. Twenty-five percent of the fluid milk in Massachusetts we produce ourselves. We consume a lot of milk, but only 25 percent of the fluid milk is produced locally. We import, however, in total 90 percent of the total dairy product that we consume, so we are very, very dependent on our good friends in Vermont. You send us milk for our processing plant. We work very closely with our neighboring states in this area. We also have become the national leaders in ice cream consumption. We have had a very strong increase in processed dairy consumption, with companies like Ben & Jerry's coming out of Vermont, Steve's, Bailey's, Swenson's and other national brands. I think Ben & Jerry's went on the road with a cow mobile the other day and brought out some very high quality ice cream to many of our states. It's very good stuff coming out of New England. Mozzarella. I confirmed Steve Taylor's views that the dairy program has been benefiting from it. We have seen a very nice pickup in processed dairy product development and consumption. Real cheese is in demand. Pizza, we eat a lot of pizza in Massachusetts, and more and more of the topping is real mozzarella. And then yogurt, a very nice pickup in yogurt consumption and that has been very helpful. I am very concerned about the current trends Congressman Jeffords put up. We may have a deficit in long-term here, we don't know. We certainly are paying a premium right now in the number of handlers—30 cents a hundredweight. It's a considerable concern to me that this deficit would continue. Three things that I would hope to bring to your attention. I would strongly support Congressman Jeffords' views on bovine growth hormone. As it kicks in as it does, that the farmers certainly benefit from that and benefit neutrally across the board. And I will certainly be monitoring that very, very carefully in my state. I am very, very supportive of your research efforts. With the trends in yogurt and mozzarella and the cheddars, we would like to see a lot more support for dairy products research. Congressman Jeffords was concerned with the orange juice and calcium. We think we can do a lot more in research and product development, and we welcome your support for that. And finally, the whole question of national equity. We are concerned with that. Our media is very concerned with the subsidy issues. It's a consuming state. A number of editorials have been coming up on the whole government subsidy issue generally, and of course, in our state, they focus on dairying. So I think we are concerned that we look at that very, very carefully in terms of a regional policy, and also the whole equitable issue nationally. Thank you very much.

Mr. Rutherford: Thank you, Gus. Jack Kelly?

Mr. Kelly: The Boston fluid market has been 8 million people, includes the Boston State of Massachusetts, southern New Hampshire, parts of Connecticut, State of Rhode Island, major plants are in Boston. There are major plants in several of the surrounding states that supply the same market. Last week we found it very difficult to draw milk into this,

fluid milk for broader purposes, for Class One milk into this market. There was a premium that went on the market in September and continued until the fall months. Thirty-cent premium came on part of the market, second payment period of July, there is a call, my understanding somebody called from New York this fall, we are going into New York, attempt a foreign milk for the Boston market, competing with the total of Class One milk as it supplies, and in effect, New York City. What we see here, even with the highest Class One differential that you will find in the separate climate, we are finding it very difficult to draw milk to city markets. And if it would continue along these lines, you would probably tend to have some very chaotic conditions as plants go further and further in order to supply their bottling needs. The promotion in the Boston market has been very successful. I would have to address Congressman Jeffords in the 15-cent takeout. It should be increased. In Canada, because they have a different system up there, but in American money, the takeout in Canada is between 21 and 22 cents depending upon the value of the dollar. I would hope that in looking at a solution to problems in the dairy industry in the upcoming years, that the unique situation, with the difficulty in drawing milk to Eastern fluid markets would be taken into consideration.

Mr. Rutherford: What I am hearing from the Commissioners and from those representing the dairy industry in the northeast is that potentially there is going to be a real problem of supplying the fluid needs of the consumer in the northeast. Is that right?

Mr. Schumacher: We are concerned about it.

Mr. Rutherford: That shows that our job is harder than what we thought. Bob McSparran?

Mr. McSparran: Ron, I want to address my question to you. I heard some of the other gentlemen express some of the same things. Do you think we may be looking at more regionalization of the price of milk? Is that what you are saying?

Mr. Allbee: I guess what I am saying is that there are two issues. If we recognize that there are regional differences in this country, if we recognize certain areas like New England and the Southeast, we have a problem meeting their fluid needs. I would argue that national dairy policy should recognize those differences and to be as regional as possible, yes.

Mr. Rutherford: Mike Horner?

Mr. Horner: Well, my question was just answered in part, but Ron in your testimony, you said that we may need supply-management control. Would you just give me a guess as to what kind of a plan we could come up with that addresses the different regional problems? I want you just to expand a little bit first on that answer.

Mr. Allbee: Well, I fooled with one back during the debate on the farm bill with the Senator. I say fooled with it because as you remember at the time, we were in a crisis situation not knowing quite what to do. I say we, the industry was, too, and I don't know whether it would be representative today, but the program that we talked to Senator Helms' people about and others that we really couldn't make work

because of differences in the regions in this country, was a program that would recognize the regional supply differences. It's almost the two- or three-tier program at the time that would, I hate to use the word penalize but assess those areas that are actually contributing to the surplus and we would figure out what the supply demand situation was in each region and operate the program through the market.

Mr. Horner: Sir, did you have that down in printed form at one time?

Mr. Allbee: Well, the best printed form, I guess I didn't have it. I did have printed form at one time but I probably shredded it by now.

Mr. Rutherford: That's very common nowadays. Charlie Williams?

Mr. Williams: Steve, on advertising, you suggest a 10-cent increase in the promotion. Do you have data to suggest how much of an increase in sales we could expect from a 10-cent increase in promotion?

Mr. Taylor: Well, I don't, but I look at competing products in the amount of the expenditures in the advertising promotion area and see that dairy lags behind food and beverages. And certainly we all know what the beers are doing, we all know what Coca-Cola is doing, fruit juice and those competing areas I think are looking at generating demand, increasing market share with very, very precisely targeted advertising. And I think dairy is doing a reasonably good job on that side. What I am concerned about is the afterevaluation, the followup to further tune and further refine the targeting of the expenditures. And I think that whether you are Frank Purdue or whoever, the evaluation of advertising is as important as the primary research that goes into placement. I will get something to you on that.

Mr. Horner: Get it, so that we can all get copies of it. Thank you.

Mr. Rutherford: Fred Douma?

Mr. Douma: Ron, when you look at the regional problems, is there anything wrong with the New England states being at 85 percent Class I usage and Minnesota, Wisconsin, and California selling manufactured products in this region?

Mr. Allbee: That's why we have also said that dairy policy is national because we have two Class Two shipments and obviously, is there anything wrong, I guess you would have to say no, as long as we recognize that the market orders themselves can be adjusted to recognize, to reflect the regional differences. I think the difference that I see in terms of where we are is that California, I will use your state, has its own structure partly because of geography, but if California had a national, was part of the U.S. market order structure and they had a Federal Market Order, I wouldn't be as concerned.

Mr. Douma: Can you accept California producers under the Federal market structure with the same basic price formula controlling the prices in California as well as the rest of the Nation?

Mr. Allbee: I guess philosophically I would but I don't know how the economics work. I know what you are asking.

Mr. Mertens: You have two markets, you have the fluid market and the hard market. You are trying to control the fluid market with the hard market price. I really think you become regionalized on a fluid market. But on a hard market, it's going up on a national level but it's going to move. The only thing that will fulfill that market is shipping in between regions.

Mr. Allbee: I think we recognize that.

Mr. Mertens: When you try to regionalize on this hard market price, you are going to get into trouble. I don't think you can set up tariffs between states like they do in Canada between provinces, but I think our problem is shaking milk out of hard product plants. We have the same problem in California. It's more profitable to make a hard product as far as a plant is concerned.

Mr. Allbee: I can recognize that the hard product is the national market.

Mr. Kelley: On the question of utilization in this market, approximately a little better than 25 percent of the milk in this market is coming out of New York State so in effect, you do run an extremely high utilization in the New England states. Your 55-percent utilization is the figure for Order Number One with 25 percent.

Mr. Mertens: With New York included?

Mr. Kelly: Right, only 25 percent of the milk out of New York.

Mr. Schumacher: I would like to reinforce the whole market issues that Steve and Ron and I have been talking about. We welcome California strawberries. You marketed them very aggressively this year with billboard and TV ads, and you had a nice little premium for that. Your supply of peaches is in now. You get a quality, decent peach for a change instead of these rocks that used to come across the border. We are hoping you will do the same for the tomato in the future. I think we can't be too simple about the hard market and the fluid market. There is a lot of middle ground in there that can be advertised and aggressively promoted.

Mr. Elkin: On the same issue, your request that we have a national program to deal with the regional price. We have very few areas that have 110-percent utilization. I guess I still feel that fluid should have first call on the milk if the price is there, but we have problems in the Midwest. Chicago and Minneapolis have only 18-percent utilization. We could have call provisions and that kind of pressure to make sure the milk is there. It seems to me the Federal Order System is the one that needs to deal with this issue. This has been an ongoing situation, especially when you try to have supply quality and so many areas would like to be exempted.

Mr. Allbee: Irvin, can I just point out that Irvin has always said this farm policy from Congress should be neutral. That has always been the position but I would argue that the last farm bill is not neutral, if you look at what happened at the differentials with the farmers.

Mr. Elkin: If you mean the Class One differential, I can't argue with you at all.

Mr. Rutherford: Gentlemen, we want to thank you very much. You have given very important testimony and if there

are any other thoughts you have, please feel free to contact us. Next, I would like to ask Paul Stone to the witness table. Paul is a dairy farmer from the State of Vermont and former Commissioner of Agriculture in the State. While Paul is coming up, if there are any witnesses that haven't checked in with Jeff Lyons, please do so. Paul, welcome.

Mr. Stone: Thank you. Welcome to you and the Commission and I am very happy that you have come to Vermont and the Northeast to hear our testimony. And I want you to know that I have great faith in Bob Foster who is a neighbor and fellow farmer and I think he is a great addition to this Commission. I have two points I would like to raise this morning. One is the impact on the cheap food policy in Washington and a second is the specific plan in dealing with the number of cows in the national dairy herd. Regarding the cheap food policy, it seems to me that no matter what policy is enacted nationally, that eventually the cheap food policy which prevails in Washington and has for a long time will override any other policy that is in place. For example, back in the early 1970's, it was determined, and USDA was part of the leadership of this, that the price of milk was getting too high for the consumer and increased imports of powdered milk were allowed to come into the United States. Regarding that same time period, the same thing happened with soybeans. The price of soybeans you may remember skyrocketed from \$3 or \$4 a bushel up in the area of \$12 a bushel and the farmers of the United States were stopped from exporting soybeans from the United States and the reason given by USDA, and this is very clearly stated and written, was that the consumer price of soybeans or soybean product was becoming too high. Just last year, the Secretary of Agriculture, Dick Lyng, would not grant a hearing to the dairy farmers of the Pacific Northwest in their attempt to amend the order, the Federal Order in that area to institute a quota system. And his reason is of interest to me. He had two reasons, one is the quota system would interfere with the free market which I think it would, I happen to agree with him on that and I am against the quota system. But his second reason was what concerns me and this is he said and I think I am quoting fairly accurately, that the quota system would raise the consumer price of milk. My feeling is that no matter what we do, whether we do it as dairy farmers, dairy farmers can get together somehow and institute policy, or whether it's national policy enacted by Congress, it will be overridden by the cheap food policy, and I hope that in your report, you will address that issue and bring that to light and try to point out some examples of when that has taken place because I am concerned that all of the work that you will be going to and all of the work the Congress will be going to will be for nothing because of that. The second point I would like to address is that I think when you boil the whole dairy problem down, it is actually rather simple. We simply have too many cows; the Whole Herd Buyout and the Diversion Program attempted to address the numbers of cows. The Whole Herd Buyout, in fact, did work and took out approximately a million cows and has reduced production and it looks as though supply and demand is relatively in balance. But that doesn't seem to me to be a long-term solution because there is nothing in the future as I see it right now to prevent the buildup of the national dairy herd, and I think that we should move rather rapidly to pre-

vent that buildup. And my suggestion is that we institute a program, a national program, similar to what Dairymen Incorporated had a few years ago and that is where we try to remove cows from the dairy herd. And in their program, I think they paid \$100 to encourage farmers to cull cows early. My suggestion is that we pay \$100 or \$200 or whatever it takes to get farmers to sell dairy heifers to remove them from the potential production in the future. And I think the program would be relatively inexpensive. It seems to me \$100 and \$200 would encourage farmers to sell a good many heifers. If you wanted to take out a million cows, for example, in the same number or roughly the same number that Whole Herd Buyout did, you are talking about a program costing \$1 to \$200 million rather than \$1.8 billion or whatever the Whole Herd Buyout cost. The program will not take out farmers. One of the criticisms of the Whole Herd Buyout in this area of the country is that it took out farmers and I agree with that. This program will not take out farmers. It will be simpler to administrate. The cattle farmers should be happy with it, we will not flood the cattle, the beef market. It could be applied regionally if you wanted to take more out where the surpluses are being created, that's possible although I have great reservations about regional dairy policy because I think it would be very divisive of the dairy industry. And we are having a hard enough time getting what we need, sticking together and if we start dividing and sending regions off fighting with one another, it can make it very difficult. So basically, the two things, the two messages I want to bring to you are that we need to address the cheap food policy and I really hope you do in your report, make it clear to the people of the United States and to the Congress what has happened in the past. And let's move as quickly as we can to prevent the national dairy herd from building up to astronomical numbers again. Thank you very much, Clyde, and the Commission for coming to Vermont.

Mr. Rutherford: Thank you, Paul. George Mertens?

Mr. Mertens: Mr. Stone, do you think \$9.60 a hundred milk is going to curb production?

Mr. Stone: Yes.

Mr. Mertens: Well, that's in our present program. I don't want to see it happen, but if we get over 5 billion pounds each year of CCC purchases, we will be at \$9.60?

Mr. Stone: Right. Well, that's what concerns me if we increase production. I am a firm believer of supply management although I am totally against the quota system but for supply management in terms of trying to reduce the number of cows. My heifer program would be voluntary and let the market determine where those cows are going to be by the production, cost of production, or whatever the other factors are.

Mr. Rutherford: Fred Douma?

Mr. Douma: If you pursue that, you are on the high side as far as removal of heifers. With the underlying current of cheap food policy, we are short of production and don't we face the same problems that we faced in the early 1970's when we had production imports to essentially destroy the producer price, the market price?

Mr. Stone: There is that danger. There is that danger and obviously when you start calculating the number of cows you think you need in the future, you have to be very aware of that, but I feel that we have very solid historic data on production, trends in production increases. Due to technology, we have trends on consumption increases and so on and it seems to me that we can come relatively close. I mean there has to be some curb on it there, but as it looks to me now, cow numbers are going to build astronomically very quickly.

Mr. Rutherford: Gerry Aycock?

Mr. Aycock: Paul, as we look at a heifer program, we have to make predictions 2 years down the road?

Mr. Stone: Right.

Mr. Aycock: We have had proposals on heifer programs across the Nation. Do you have any specific formula or program that you could recommend?

Mr. Stone: Well, I have basically stated what I feel the broad outline program would be. I don't have the details worked out. It just seemed to me that if we offer dairy farmers an incentive to market heifer calves, they would and they simply submit proof to the ASCS that they have marketed a calf and they would be paid \$100 or \$200 or whatever. I would leave it up to USDA and economists to predict the numbers that should be removed. And once they had been removed for a specific time period, that would be the end of that program. And if you thought you needed it again in the future, then you would reinstitute it.

Mr. Rutherford: Pearson Knolle?

Mr. Knolle: On the same line, do you think a dairy assessment would pay for this?

Mr. Stone: I am very much against assessment except as a last resort and I think you will find probably the majority of the farmers are very much against assessment. But if that's what it takes to get a program through, then I would be in favor of it.

Mr. Rutherford: Okay. Paul, thank you very much and I appreciate your taking the time to testify. The next to testify will be Elwood Kirkpatrick. Elwood, we are very happy to have you testify here in Vermont, representing Michigan milk producers. Elwood is also deeply involved as officer of the National Milk Producers Federation as well as being involved with promotion of UDIA. He has tried to testify before the Commission a number of times and I think I know why he picked this one. He wanted to come to Vermont.

Mr. Kirkpatrick: Thanks, Clyde, I do appreciate the opportunity to be here and apologize for being out of location a little. My testimony may not fall in with everyone from this area but maybe it will be a little different point of view. I am a dairy farmer from Kinde, Michigan, as well as being President of Michigan Milk Producers Association. Michigan Milk has about 4,600 members and we market about 65 percent of the Grade A supply of milk in Michigan. It is my understanding that the Commission is interested in comments about the current price support program, alternatives to the current program or policy and views that pertain to new technologies about to surface within our industry. I will at-

tempt to keep my testimony in line with these objectives and guided by policy of our organization that has been adopted by our members. I would be glad to elaborate on any of the points afterwards, but I have tried to reduce this to a minimum amount of testimony for time purposes. Under the Milk Price Support Program, this program was permanently established by the Agriculture Act of 1949. Since that time, with few exceptions, the program has performed the function of maintaining an adequate supply of milk at reasonable prices and in addition to that, at a reasonable government cost. The benefits both go to consumers and producers. We strongly endorse the need for continuation of the support program, implemented through the Commodity Credit Corporation as a means of providing stability within the dairy industry. The current price support program has prevented large price swings which, in turn, prevents unnecessary capital investment being brought in during times of shortage and removed during times of surplus production. This condition would result in additional cost to the consuming public if it were allowed to take place. We do support efforts to improve the current price support program as follows. We would support the use of a cost of production formula as the appropriate means of moving the price support up or down. This formula should take into consideration the cost of producing milk as well as economic conditions and other segments of agriculture and the general economy. And I know that within National Milk, we have done some work on a plan like that and it could be available if it was desired to have a look at. The second area, we would support the concept of supply management and I would include a dairy herd buyout again or a two-tier pricing structure with a trigger mechanism that would trigger in and out so that this didn't become a permanent type of quota system but rather a type of supply management. And this would be used as a means of maintaining market balance rather than strictly using price devices. We are concerned about the stability of the dairy industry if we follow strictly a price device mechanism. As the impact of technological advances in the industry are realized, it will be necessary in order to effect an orderly transition. We do not feel this should be modified by region, but rather should be adopted on a nationwide basis. In recent years, number three, it appears that there have been efforts to reduce the price support level outside the intent of the program. This has happened because of failure to increase plant-milk allowances, thereby effectively reducing the ability to pay dairy farmers the price support level. This should be corrected since it effectively modifies the support program and impacts the cooperative sector of the industry rather than impacting the industry uniformly. We are supportive of federal milk marketing orders and the classified pricing system they provide. Market orders successfully provide equitable access to markets and price for all producers. Legislation was passed in the 1985 Farm Bill authorizing market service, marketwide service payment for market-balancing functions. This concept allows all producers to share in the cost of market balancing, and in our opinion is equitable. There seems to be some resistance within USDA to allow these payments to be implemented under a Federal Order Hearing. We would urge USDA to look favorably at this type of payment for services rendered. When we are talking about technology, we know that we are

experiencing rapid advances in technology in dairy production. Embryo transplants, gene splitting, bovine somatotropin are a few ways the industry will advance and will be used as management tools to increase production per cow. Each will impact the industry and contribute to the need for additional restructuring. I feel it inappropriate to attempt to restrict the use of these advances and knowledge; more appropriate would be to assure ourselves and the consumer of the safety and integrity of the end product. Technology advances, however, are not just happening on the production side of the industry. Many advances in ultra-filtration, freeze-drying and other methods of fractionating milk are being developed. I feel these advances could be looked upon as potential ways to advance new product development and cause our industry to be more aggressive in producing new products that are desirable from a consumer viewpoint. I am not necessarily in a position to determine if the balance in supply and demand will be maintained as progress is made on each side of this industry but feel it appropriate to stand by with predeveloped supply management programs to be used as needed. Our organization and our members are very forward thinking in terms of funding promotion, nutrition education, and research. It would appear that increases in funding at least in the new product research area should be considered as a way of increasing product use in the future. We would be willing to work toward this effort. However, we do feel it essential that a consolidation of organizations at the national level is a must in order to generate needed efficiencies in our current national effort prior to increasing this level of promotional funding. I believe that there are areas that we can save costs in this national promotion and research funding effort and I think we should do that before we consider increases in the overall funding.

That basically concludes my remarks. I will be happy to answer any questions. I might just ask one, when we talk about regional prices or regional options, before I conclude in that, has the Commission determined who owns the consumer or whether you can legislate that?

Mr. Rutherford: Are there any questions? Charlie Williams?

Mr. Williams: Elwood, on item No. 1, where you are using a pricing index to move the price, would you advocate guaranteeing profit or strictly covering cost?

Mr. Kirkpatrick: Well, I think you ought to at least cover your cost in the support level, Charlie, and normally that provides a foundation that could cause your price to move up from. I think if you get into guaranteeing a profit, whose farm do you guarantee it on, and then I guess I would have to say that I don't know if the industry or the government ought to have to guarantee a profit on every farm.

Mr. Rutherford: George Mertens?

Mr. Mertens: On that same line, Mr. Kirkpatrick, you use the East coast area as your base and then you use differentials from there?

Mr. Kirkpatrick: Well, I think you have to use, you know, it would require a considerable amount of study but I think you would have to use basically a national average of production.

Mr. Mertens: Weighted average?

Mr. Kirkpatrick: And then move from location to location, differential pricing under a Federal Order System I think is appropriate. I think it's a must.

Mr. Mertens: Do you see any pitfalls in doing it that way?

Mr. Kirkpatrick: Sure I do.

Mr. Mertens: You will exacerbate the whole problem eventually as you go along with that kind of a system.

Mr. Kirkpatrick: Well, depending on where your cost of production falls and what you consider in the cost of production. I am sure that you can get into overproduction situations if you do that. You have done it in the past under a different formula and gotten into problems so I am not saying that the price support has to be up there, you know, with great amount of profit. That will cause problems. But I think at some point in the future, as I look down the road, we are going to have to address a type of supply management anyway in order to go through the adjustment that the industry faces.

Mr. Rutherford: Gerry Aycock?

Mr. Aycock: Elwood, on the supply program, you mentioned the dairy program plus two-tier pricing. Would you not exclude some other program?

Mr. Kirkpatrick: I would not exclude some other program other than a quota system. We in Michigan are opposed to a strict quota system. They studied it and our membership has determined that they don't want a strict quota-type system.

Mr. Rutherford: Mike Horner?

Mr. Horner: Elwood, at one time you made a presentation of a plan. Do we have that on the record or have you changed your mind about that?

Mr. Kirkpatrick: No, basically I gave a little talk at a national milk meeting on a two-tier pricing structure. I have not brought that with me, Mike, but I would gladly make it available.

Mr. Horner: Would you make it available to our office so we could get it copied?

Mr. Kirkpatrick: Certainly.

Mr. Rutherford: Bob Foster?

Mr. Foster: Elwood, you refer to the support of the market order system. We have had testimony as to some of the problems that have cropped up in other areas. I was wondering if you had any suggestions for improvement in that area? While it's peripheral to our consideration, it is part of national dairy policy.

Mr. Kirkpatrick: Certainly within the system there have to be provisions to move milk to the fluid market and I think we have those, basically.

Mr. Rutherford: Jack Laurie?

Mr. Kirkpatrick: I got one more comment on that. There are a couple of things under the Federal Order System that I don't believe are taken into consideration and I did mention marketwide service payment and I believe that is quite reasonable to ask for and would give some return to the pro-

ducers who stand balancing the market. And basically, that's the co-op in the area. The system can be manipulated both by handlers and independent producers where they escape the cost of sharing the market balancing function unless that is addressed. I think it's very important that this be addressed. USDA seems to resist, for some reason.

Mr. Rutherford: Jack Laurie?

Mr. Laurie: Elwood, coming here from Michigan, you know that the shortest distance between two points isn't necessarily a straight line. In regard to the make allowance, and the rest of the Commissioners will chuckle at my question on the make allowance, pay no attention. Two questions. First, technically, is there any difference between an adjustment in the make allowance and a variation in the support price? The end result is the impact on price to the producer? And the other question is, you mentioned that the make allowance impacts the cooperative sector more than the rest of the industry. Would you explain that?

Mr. Kirkpatrick: Certainly. And the answer to your first question, Jack, yes, there is a difference between the adjustment in the price support and a failure to adjust the make allowance. Basically, the cooperative is the cooperative. The cooperative is the organization in most instances that is balancing the market, in most instances, has products that are made available to the government. And when you are not sharing that with all producers, your make allowance loses, if you will, to that cooperative membership that owns the plant and it is balancing the market so there is a difference. In my opinion anyway, the second thing is if it's the intent of Congress to have a support price, let's have a support price and not mess with it outside of that attempt. I mean if that's the law, that's what we should follow. Now, what was your second question?

Mr. Laurie: Well, why is it that the make allowances unfairly impact the cooperatives?

Mr. Kirkpatrick: I think I may have addressed both of them at the same time.

Mr. Laurie: I think you have addressed that.

Mr. Rutherford: Fred Douma?

Mr. Douma: You talk about a formula to move the price, but you still support a supply management?

Mr. Kirkpatrick: Yes.

Mr. Douma: I think you indicated that it should be trigger in, trigger out, temporary or standby, whatever words you use?

Mr. Kirkpatrick: Right.

Mr. Douma: How accurate should the pricing formula be? Should it be our attempt to get a pricing formula that really controls supply, or is standby authority or supply management going to be the tool that is constantly used?

Mr. Kirkpatrick: I think your tooling would be the supply management program. I don't think you would go to a supply management program if you wanted to do it all at once. You know, you can eventually do it with price and the figure 9.50 was used here this morning or 9.60 and probably eventually that would control production. It will certainly stress the industry as you go through it and in our opinion, there is

a little better way of doing it. One, it's not quite as stressful on the industry then strictly price to bring it down because I am a dairy farmer and I am going to be forced out of business with a low price. I am not necessarily going to sell my cows for slaughter. I am going to put them on the market and someone else who is a little stressed is going to buy them and continue to milk them until he is forced out so it's a grinding process. It takes a long time. I think there is a better way.

Mr. Douma: Then if your price never controls it, then your standby program or your triggering program would be in place almost all the time. Then, even under a two-tier pricing system, you in reality would have a quota system, which you didn't like?

Mr. Kirkpatrick: No, I don't think that's true, Fred. You can control part of it with price and you can take the inefficient producer out with the price even on an average cost, but then you prevent, as you have a two-tier pricing system and if you get into the surplus condition, you prevent new producers from coming into the market during that time. You prevent expansion during the time of surplus. Eventually that takes your production down or your consumption goes up and then you trigger it out and those who have a need or a desire to expand have the opportunities to expand at a time when there is a need for the product.

Mr. Rutherford: One more question, Bob McSparran.

Mr. McSparran: Elwood, on the marketwide service payments, do you think that if the USDA started granting them there would be a loophole for a proprietary handler to qualify for that also?

Mr. Kirkpatrick: Bob, I suppose there could be and if they are performing that function, I don't think there is a problem with it. I don't look at it, you know, we as a co-op have clients that produce butter or powder or cheese. I don't look at that as all market balancing function, but there is a certain percentage of that that is market balancing. And on that percentage, you ought to be reimbursed for performing the service, not necessarily on the whole thing.

Mr. Rutherford: Elwood, thank you very much for making the trip from Michigan. We are glad you finally made it to testify.

Mr. Kirkpatrick: I appreciate the opportunity, thank you very much.

Mr. Rutherford: Next I would like to ask John MacKillop, Addison County Vermont Extension Agent to come forward.

Mr. MacKillop: Okay. First of all, I was introduced representing Vermont Extension Service, I also want you to put this into perspective as an entrant in the dairy business. My wife, Sue, and I operate a small operation in Shoreham, Vermont, and I wish to address the Commission as an entrant into the dairy business. If you assume that dairy farming like every other business in the United States is dynamics and we have got to find a flow of entrances and exits and hopefully we can maintain that perspective. We took a shot at entering the dairy business back in 1980 and despite the advantageous terms on a couple of farms we looked at, the operation really didn't pencil out much less than \$13 milk. Early

1982, into early 1983 we looked at a few more operations but as you recall, legislation started to take quite a bit of concerned looks at dairy farming in the United States. I think that's very skeptical about depending upon levels much less than the \$12 market. So we entered the dairy business by acquiring simply one heifer at a time. We started in 1983 and we started shipping milk as recently as 1986. We milk 20 registered Ayrshires, we rent a barn which we renovated which cows hadn't been in since 1967. We rent our pastures, we buy all our feed. Though we've a break-even price of less than \$10 a hundredweight, we feel we can only afford to hold the most liquid assets. We have got cattle, minimum amount of debts. To further hedge risk, we have off-farm income and this follows a national trend incidently for farms grossing less than \$100,000. I am employed by the University of Vermont Extension Service as a County Agricultural Extension Agent. Interest rates have not been a problem nor has milk price per se. The problem we see is stability. We have attempted to offset the lack of stability by absorbing risks as much as possible and we are not looking for a risk-free business. We are not looking for any sort of control that will give us any guarantees, but let's look at the price support system record of stability. Now, the stated objectives are 1) to assure an adequate supply of milk; 2) to establish prices that reflect changes in the cost of products; and 3) to assure a level of farm income that will maintain a needed production capacity. It doesn't maintain profit or anything else but needed production capacity. What is the report card of our support system, adequate supply? Well, since 1970, milk production has been at levels which are considered at times to be inadequate and at other times to be extensive.

During 1973 or 1974, imports of dairy products were directly expanded because of the high domestic retail dairy product prices and low levels of U.S. milk production. Since 1980 the USDA purchases have obviously been burdensome. The cost of production? Well, based on USDA cost of milk production studies, correspondence between milk support prices and production costs have been erratic at best and that income from dairy farming varied from a loss of 62 cents a hundred in 1974 to a profit of \$2.81 per hundred in 1979. And the level of income? Since 1970 the support program has not prevented dramatic changes in dairy farmers' income. In 1974, the \$4,842 family income from dairying from a farm with 48 cows was well below the poverty level for a family of four. At the other extreme, family income from dairying in 1980 for a 54-cow herd is \$28,983, just about double the average nonfarm family income. And I realize that the reasons for this erratic performance have been natural causes, other agriculture policies, macroeconomic policies, and certainly the parity formula. But it is apparent that the price support system in its performance since 1970 has been about as stable as the Boston Red Sox pitching staff. And nevertheless as a Red Sox fan, something as a diehard, I wish to maintain the price support system but one which is modified or refined in a manner in which free price is determined. Now, this will enable some degree of long-range planning for entrants and certainly in my capacity as an Extension Agent for making recommendations it at least gives us a worthy case to the dairy entrant but we really need a system that we can better forecast. Now, I only have a very few thoughts on moving towards stability of the sup-

port price. First of all, to me the obvious, let's eliminate parity pricing. It's an index which has long served out its useful life. Secondly, and this maybe actually should have been first, is clarify dairy policy objectives and also a methodology of meeting those objectives and remove the implementation of those objectives from the legislative roll call. The political arena of Congress has its share of foxes guarding henhouses. Now, we shouldn't implement a program based strictly on production concentration. You may realize what I am implying is what Congressman Jeffords and Ron already stated. I firmly believe this objective methodology of support prices would gravitate toward regional prospective, be it mandated, be it Class One price differential increases, or vehicles such as RCMA. Finally, implement a system which differentiates between consumer and nonconsumer uses of milk thereby avoiding accounting the inequities or at least inappropriate accounting of including casein or also future industrial uses of milk in our utilization figures. Your Commission has a tremendous job ahead of it. You are going to have to integrate the needs of dairy farmers into what has become a very complex domestic and international picture. So good luck and thank you very much.

Mr. Rutherford: Thank you, John. That was an excellent piece of testimony. Are there any questions or comments? Charlie Williams?

Mr. Williams: You say you entered the dairy business about 1980. Would you enter the dairy business today?

Mr. MacKillop: Certainly I would. I have. I restarted shipping milk in 1986. But we also keep ourselves in a position to liquidate if we have to move cattle and we have no machinery and we can do that tomorrow.

Mr. Rutherford: Fred Douma?

Mr. Douma: You talk about stability and you related that to income. We have always heard calls for stability of prices but it generally comes from the other side. Prices don't change too often, but when you have costs changing and you want stability and income, then prices do change. Should we be looking at more of an income stability or a price stability?

Mr. MacKillop: My feeling is that if we can establish a method and I would support a price stability, be it world price, be it \$9.60 milk or \$10.50 milk, at least we have got a target to shoot at. This gives us a foundation and we are not here to—I am not here to try to give any kind of a specific recommendation on how we are going to determine that but I think it's only fair if we are going for cost or make recommendations or enter a business, we need to know where it's going to be. And I think some of the erratic changes of price have been the result of simple legislative mandates, assessment. I think it is right up upon us so we have got to take a closer look at how one takes a long-range look at the dairy business. So to answer your question, I would be looking at price.

Mr. Rutherford: Irvin Elkin?

Mr. Elkin: You were both critical and supportive of the price support program. I think we could cite many cases during the period we talked about when we had improper administration of the price support program. I am not so sure that

the program itself was as much at fault as was the administration of the program during this period. We can cite many examples.

Mr. MacKillop: Right. And somehow we need to insulate it from some of these other factors.

Mr. Rutherford: John, you started shipping milk in 1986. You probably felt somewhat compelled because you started raising calves in 1983. You were getting to the point you would have to do something with the milk. Did you take into consideration the present farm bill by which if production continues to increase, you are going to be looking at \$9 milk? I think you said your break-even point was \$10. If you thought that all of that was going to take place, would you have been as optimistic about starting?

Mr. MacKillop: Our break-even is a little bit less than \$10 right now. If we thought that barring no different avenues that milk would be at 9.60, I suspect we would probably have gone about 35 cents a pound for those heifers for beef or whatever, but we are looking at it right now as an opportunity to make some money.

Mr. Rutherford: Well, I wish you a lot of luck and it is still a great industry. Thank you. At this time, I would like to ask George Cross if he would come forward. George has another commitment this afternoon and so far, George, everybody has spoken very highly of promotion and nobody has picked on you individually yet.

Mr. Cross: I am amazed. Thank you very much, Mr. Chairman, and may I say to all the folks outside of New England, welcome to Vermont and New England. We are real pleased to have you here and it's kind of nice to go to a meeting and not have to get on an airplane. You have a tentative schedule of those testifying with you, if you look on the second page, you will see the name there that says I believe it's spelled P-R-O-M-F, the correct spelling of my name is C-R-O-S-S just for the record. Thank you. My name is George Cross and I am Executive Vice President of Milk Promotion Services here in New England, hereinafter referred to as MPSI. Our organization started operating in 1970, receiving milk promotion funds from all six New England States and New York. MPSI conducted or funded programs in Massachusetts, New Hampshire, Rhode Island, and Vermont at that time, and in 1976, Connecticut merged with us. We are unique in that our membership is dairy cooperatives with provisions for representatives of producer handlers and nonco-op producer groups on our board of directors. I have been employed with MPSI since its inception in 1970. I have also been very active in the United Dairy Industry Association over the years and also I have been involved with National Milk Producer Federation serving on its promotion structured committee. I would like to emphasize, Mr. Chairman, that I am here not as a specific representative of MPSI but at the urging of my president, Mr. Webb, who is also Chairman of the Board of the United Dairy Industry Association. My purpose in being here really is twofold. One, to comment on the effectiveness of the Dairy Promotion and Research Order and two, what should or can be done to strengthen it. I think the effectiveness or other alternatives of the expanded promotion program is a matter of record with sales of milk and milk products up some 9.6 percent in

the past 3 years. Cheese sales are up an astounding 20.2 percent, fluid milk up about 3.5, butter up 5.2, ice cream up 2.6, and nonfat dry milk up about 7 percent. All of those increases cannot necessarily be attributed to the expanded promotion effort and therefore, I think all of us recognize that. I am sure some other factors such as a stable price for milk, lower price for milk, low unemployment, low inflation, and a relatively strong economy are factors which also help boost dairy product sales, yet I believe overall dairy farmers are generally pleased with the overall results of their 15 cents per hundredweight investment in the state, regional, and national promotional programs. Some dairy farmers and myself as CEO of MPSI feel we could do a better job such as we attempted to improve our lot here in New England in the late 1960's. At that time we had seven promotion organizations and four dairy council units in New England. Today there are three promotion organizations and three dairy council units with activity taking place to further reduce those numbers. We have reduced our administrative costs and other program costs and, hopefully, we could do the same thing nationally as we have done here in New England. We feel similar types of consolidation nationally would give dairy farmers better programs, greater coordination, and significantly reduce administrative and program costs. More on this in just a moment. One of the responsibilities of the National Dairy Promotional and Research Board is to coordinate dairy promotion programs in the United States. There does seem to be, however, a reluctance on the part of some of National Dairy Board leadership to do this. As an example, the National Dairy Board recently fired the advertising agency that helped achieve the spectacular increases in cheese sales. That agency also happened to be our agency of record, yet we were not invited to participate in the selection process of the new agency. I should also point out that the advertising program for cheese was in place before the National Dairy Board was created. Perhaps we might assume that the additional advertising bought by increased dollars was one of the major factors in achieving those results. The National Dairy Board as I mentioned earlier is making changes which affect all dairy farmers, but the state and regional promotion organizations that have 10 cents of the 15 cents per hundredweight promotion assessment have not been invited to be a part of the decision-making process at this stage of the game. Certainly as far as voting is concerned, I think this is most regrettable. I believe we will see in due time an attempt by the powers of the national board to achieve complete control of all visible, meaningful promotion programs currently being developed and/or implemented by state and regional promotional organizations. That might not be a bad idea if dairy farmers could elect through traditional means the directors on the national board. Today appointment of the dairy board of directors appears to be strictly political with little regard to the wishes of dairy farmers who provide the funds. I sincerely believe that one national organization could be achieved if it were controlled by those who fund it, saving some \$5 to \$10 million in administrative costs, program development costs, and eliminating duplication. That \$5 to \$10 million would buy a lot of dairy product advertising. I believe the Dairy Promotion and Research Order has been a real economic benefit to dairy farmers. I think for it to con-

tinue to be, it will require the support of a majority of the dairy farmers throughout the United States. If dairy farmers can gain some control of the program that they fund in a democratic manner, I am confident that support will continue. Thank you.

Mr. Rutherford: Thank you, George. Are there any questions? George, the range of \$5 million to \$10 million dollars is an advertisable range. What is the right number of dollar savings for a unification of the promotion effort? I think everybody realizes any time you combine and cut back and join together programs, there is going to be a savings. Do you feel that \$5 million would be an accurate figure?

Mr. Cross: I think \$5 million is on the low side and I say that for a number of different reasons. If you have sort of two national organizations as we do now, UDIA and the National Dairy Board, and we could eliminate one of those organizations, you would save annual meetings, directors' meetings, all those kinds of meetings that would be involved in one organization and that is a significant cost. We perhaps would not need quite as many advertising agencies as we have in the whole United States today if we could eliminate three or four different advertising agencies, three or four different milk promotions, for example, advertising campaigns. And I think we can do that. I know we can do that because we obviously have to do some experimenting in our work. And we are right now here in New England taking some, as I believe you are in New York, Mr. Chairman, taking some of the nationally developed commercials and putting a different audio to them to kind of tailor them to meet some of the regional needs that we feel we have here in the marketplace, some of the needs that we can capitalize on. We can do it very inexpensively so what I am saying is that instead of having five or six different, for example, fluid milk campaigns in the United States, we might be able to take one real good one and tailor to meet our regional needs and save quite a few million dollars a year right in that one respect itself. I think also, the fact that if we had one national organization that could develop all of the programming that is needed nationally as well as locally, we could also save some money. I feel in our organization that with about a \$5 million budget, that we could save about a quarter million just in that respect alone.

Mr. Rutherford: Are there any more questions or comments for Mr. Cross? Thank you very much, George.

Mr. Cross: I appreciate the opportunity.

Mr. Rutherford: Next, we have a panel of dairy farmers: Isadore Yandow, Harold Howrigan, and Ralph McNail.

Mr. Yandow: Good morning, gentlemen. I want to welcome the National Commission on Dairy Policy to Vermont. I am Isadore Yandow, a dairy farmer from Swanton, Vermont, in Franklin County which is the largest milk producing county in New England. I am currently milking 300 cows and I have been a dairy farmer for over 60 years. I ship my milk to St. Albans Cooperative Creamery and I am presently president of the St. Albans Board of Directors. Over my many years of dairy farming, I have seen many of my neighbors come and go in dairy farming. Twenty-five years ago, Vermont boasted of over 8,500 dairy farms. Today we have less than 2,600, a loss of almost 6,000 farms. In the past year alone, Vermont

has lost over 500 farms to the buyout and sellouts. Vermont is a primary supplier of milk for the Boston fluid market supplying over 44 percent of their needs in relation to all Federal Order One suppliers. Of the total New England supply, Vermont produces over 58 percent. From those numbers, you can readily see that without the Vermont supply or a large decrease in the Vermont supply, the Boston market requirements would be seriously affected. How far west and what higher costs to customers would the Boston market have to go to secure adequate milk supplies? We cannot afford to find out. I can tell you, gentlemen, this morning that we cannot and must not force any more New England farmers out of business, be it through price cuts or other government programs. The dairy farmer in New England has paid enough for the surplus produced by other states. The time has now come for those states to solve their own problems and to carry the burden of solving their surplus problem on their own backs. New England farmers cannot accept, cannot accept another price cut and should there be another price cut, it should be offset by a change in the Class One differential in the New England Order. We need to increase production in New England to meet the needs of our customers. Currently we cannot supply our customer's needs so they have to turn elsewhere at a much higher price. What kind of dairy policy do we have that cuts the price to the farmer and increases the cost to the customer? In order to increase production, New England dairy farmers need an incentive in the form of higher price differentials or a premium. The New England dairy farmer would like to make a profit for a change. It's long overdue. Lastly, gentlemen, let's be sure that we do not adopt a dairy program that will dictate the size of a farm or else dairy farmers in New England will end up on the government's endangered species list. Thank you, gentlemen, for giving me the opportunity to express my opinions.

Mr. Rutherford: Thank you, Mr. Yandow. Ralph, did you want to go next?

Mr. McNall: Good morning, gentlemen. My name is Ralph McNall as you already know. With the help of my wife, one full-time son, and another son still in high school, we operate a 350-acre dairy farm. The dairy farm has 80 registered Holstein cows and about the same number of replacement heifers and the farm is situated in the Champlain Valley north of us here. That has been my livelihood for the past 33 years and I feel that dairy farming has been good to us. We have been fortunate to have been able to educate four of our older children who all have B.A. degrees in various majors, one of which is natural dairy science and that's the one who is home with us now. Now, it is my understanding, or part of my understanding, that the National Commission of which you people are members have been charged with studying impacts of technology and other industrial developments on future operations of the Federal Government Price Support Program. A little background, during that period from 1950 to 1987, this has happened nationally. Production has gone up to 5,300 pounds per cow to 13,500. The number of cows has dropped from 23 million cows to 10 million cows. Pounds of milk has gone from 126 billion pounds to 143 billion pounds. Technology has done this primarily. A.I. or artificial insemination, improved disease control, better feed-

ing practices, improved reproduction management, and herd management have dramatically increased the volume of milk. However, on the horizon we are looking at such giants as bovine somatotropin or BST or better known as growth hormone in some herds and semen sexing just to name two. If BST is approved by the Federal Drug Administration and the supply is ample, the United States could find themselves with up to one-third too many dairy cows to meet commercial demands. Drug companies are dumping millions of dollars into BST trials and research and have nothing but good news to advertise regarding BST. And I emphasize the word advertise. In sections of the country where they have an oversupply of about 50 percent today, that's milk, and just dream what this hormone might create for problems in the future. CCC purchasing could be increased to 80 percent of the milk produced in the western part of the United States. Allowed to circulate with no control, BST could conceivably eliminate thousands of family farms and raise favor with A.I. organizations, milk processing plants, and industry in general. Semen sexing is still in research levels. If it becomes practical and widely used, it certainly won't have the immediate impact of vast amounts of milk but it's there. A.I. has probably been more responsible for increased production in the last 30 years than any other single program. There is no question but this will continue to follow the same course. My suggestions to this Commission today are as follows, I have two. One, please encourage some form of regionalization of any price program. Two, please encourage through channels that FDA take rigid precautionary measures to reduce the use of BST. Thank you for your time and good luck with your decisions in the future.

Mr. Rutherford: Thank you, Ralph. Harold?

Mr. Howrigan: Mr. Chairman, members of the Committee, it is an honor to welcome you to Vermont and have an opportunity to speak to you. I am Harold Howrigan of Fairfield, Vermont. I was born and grew up on a small upland farm in Fletcher that is well infected with stone, still part of our family farm. I was the sixth son in a family of 11 children with 5 younger sisters. We grew up during the Depression years. Our parents' only source of income was from 30 cows and cash from our maple syrup from our maple trees. I learned to do, to make do, and to do without. My wife, Anne, and I have five children, two daughters and three sons. Our three sons and younger daughter are active partners in our dairy operation. We currently ship milk to St. Albans Co-op from three small farms. This year's production will total 3 1/2 million pounds. We grow all our own roughage and raise most of our dairy replacements. It is from our experiences and honest concerns that answers to our dairy problems will be solved, and they must be addressed in a fair and equitable manner. I do not intend to imply by being here that I have all or any of the answers, but it is possible that some of my thoughts and concerns will reinforce other ideas that you have heard previously and may steer us in the right direction for the future. There can be no question that any successful dairy policy must equate to regional differences that exist in our country today. We have one region which is producing between 40 and 50 percent of total CCC purchases for 1987 and another large region that is responsible for less than 4 percent of 1987 purchases. St. Albans Co-op will not sell the

government one dollar's worth in 1987. When the success of dairying in a region depends on large part with the sale of its product to the CCC at the expense of depressing prices in other parts of the country, then there needs to be an equalizing factor enforced. There is more at stake here than a loss of a few outmoded or inefficient operations. Dairying is a traditional way of life for thousands of families in the northeast and across this country. From dairying, there is a constant renewable source of income which forms the economic fabric through which all our rural economy is interwoven. There are thousands of farm-related businesses that depend on a viable dairy industry for continued success. There has been and will continue to be a national attrition in farming due to urban expansion, industrial needs, a shift to more profitable land, and the mortality due to father time. In general, these losses have been met by larger, more productive units and the increase in production per cow. We are at the threshold of great new strides in technology. The demands for efficiency will dictate that successful dairymen and women will make use of these tools. The results will be better buys at the food counter for the consumer. The increased production will undoubtedly outpace consumption. This excess production could be managed with a much lower price on the excess or through a heifer buyout program or combination of the two. This control would be triggered at a predetermined level and be accountable on the regional basis. Dairy farmers have far too much invested on long-range commitments to be constantly jerked around by changes in the dairy policy and prices. We have a right to know which direction we are headed so that we can plan accordingly. Food is our first and most important source of energy. Without nutritious food, our bodies and minds do not develop fully. Dairy products are recognized as an excellent and economical source of nutritious food with milk being nature's most perfect. Therefore, it is very important that our Nation's youth have access to wholesome dairy products during their early years to insure that they have fully developed minds and bodies, for the youth of today are the leaders of tomorrow and must be mentally and physically capable to cope with the problems that they will face. Milk and cheese programs in our Nation's schools must be expanded. Our Nation's poor must be tended and fed. The labor condition on the farm scene is extremely critical. There are two foremost reasons. One is the shortage of people in the labor pool and the unwillingness or the need for them to do the work required on our farms. The second is a financial predicament that we farmers find ourselves in. We do not have the dollars to compete in the labor market. The lack of participation in our FFA and Vo-ag courses in our country's schools, while understandable because of the financial conditions of our farms today, should be of great concern to all of us. These courses stimulate an interest in and develop basic skills for future participants and leaders of our agricultural segment. Without the constant infusion of youth into the agricultural field, we will see an ever increasing ownership of our prime farmland by foreign interests. Thank you.

Mr. Rutherford: Thank you, Harold. Are there any questions? Yes, Dick Shade.

Mr. Shade: Harold, how do you think we could solve this regional problem? Do you have any specifics or recommendations for us?

Mr. Howrigan: Like I said, I am not an expert, I came here with some concerns. And I think that there should have been or probably could be a formula worked out that would put the burden of it where it belongs. Those who want to continue to produce for the CCC should share proportionately in the cost of government programs.

Mr. Rutherford: Wilfrid Turba?

Mr. Turba: Ralph, if our only concern with BST is that it will increase production, cause more surplus, how do you differentiate the use of BST from using A.I. and embryo transplants?

Mr. McNall: Just that it's more traumatic I guess in its increase alone. The experts claim if it's used while breeding that it will increase production and volume 30 percent. I'm first to admit that would depend on the management program but that would be the maximum as I understand it. And this could happen overnight almost as opposed to other programs that take more time and allow us a greater chance to correct it one way or another.

Mr. Rutherford: George Mertens?

Mr. Mertens: On that same point, Ralph, do you have any concerns about the effect on the consumption?

Mc. McNall: Naturally. That's the big one.

Mr. Mertens: I would be more concerned about that than the increase in production.

Mr. McNall: I don't think it's realistic to say that the consumption would follow 30 percent increase in the oversupply.

Mr. Mertens: I would be more worried about lowering it 30 percent.

Mr. Rutherford: Fred Butler?

Mr. Butler: Mr. Yandow, you spoke about government programs driving Vermont farmers out of business. Do you think we should eliminate all government programs?

Mr. Yandow: No, I don't. We have to have them. We have had experience in not having government programs before and it didn't work. We still have to have them, but they can be improved we think.

Mr. Rutherford: Bob McSparran?

Mr. McSparran: Harold, there have been several speakers this morning talking about regionalization of prices. In your comments, you mentioned a heifer buyout program that would be regionally administered. How would you do that?

Mr. Howrigan: I guess specifically I wasn't referring to the heifer buyout program, but rather that the cost of the program to the government on the excess purchases be somehow borne in a regional manner. I am sure that heifers could be transported across the country overnight and this would not work.

Mr. Rutherford: All right, gentlemen, we thank you very much. We appreciate your testimony and it is very important

for the work of the Commission. Thank you. Next, I would like to have Milton Sinclair of Sharon, Maine, and Tim Carter from Bethel, Maine, come forward. Good morning, gentlemen. Milton is going first.

Mr. Sinclair: Chairman, committee members, fellow farmers, guests, I am Milton Sinclair and I milk Holstein cows as you said in New Sharon, Maine, with my wife, Charlotte, and our five children ranging in ages from 14 years to 14 months. We milk 65 cows with the help of one part-time man, one schoolboy, and my family. I, my wife, my 14-year-old boy and my 13-year-old daughter all contribute tremendously. As a matter of fact, my 14-year-old son is better than any hired man that I have had in all the time that I have been working. He does most of all the fieldwork that I don't do now. I had to hire one man this spring before school finished, a mature man, which cost me a tremendous amount of money. I don't suppose this makes me any different than most of the farmers here today but it does make us a lot different from the rest of society, I am a farmer by choice. All my life from the time I was a small boy I wanted to be a farmer. I didn't grow up on a farm. My father worked in a factory and I started working on a dairy farm in 1959 after he was killed in a fire. And the rest of my high school years and college, tour in the Air Force, I would continue to work part-time. In 1973, with the help of a FHA loan I was able to purchase my farm where I am now. In those 14 years, we have progressed from 20 cows to 65. We have made many strides forward, making improvements in our operation which have included a bunker silo, a heifer barn, new storage area, many other small improvements plus improvements to the land with the use of drainage tiles and ditches. I know there are many other improvements that we could make but these things all cost money. Things such as a free-stall barn, milking parlor, mixing wagons, computerized feeding, et cetera, but the price of milk as low as it is now, it is very difficult for us to make those improvements to make our operation more efficient. And the possibility of borrowing money is getting less and less with the price of milk going down. It seems that as we make headway forward, there are always things like lower milk prices, increased trucking, more dues, more assessment, such as the one we have now to pay for the Whole Herd Buyout. A few years ago when milk prices were a little better, we started to get headed in the right direction. And now, we are faced with another assessment or another lowering of price, threatening of 50 cents lower in January. And I am not sure just how much longer we can survive in our situation. I do truly feel that the total Herd Buyout has done and is doing what it was supposed to do. For the first time this year, this summer we have seen beef prices in our area at 90 cents a pound and I am told daily that the milk supply in the northeast is short and is expected to be shorter this fall. This would seem to me like a good time for farmers to exercise their legal rights to set the price. For a number of years, we have been told that the RCMA is the only way to go. I am a little disappointed that the price was only set at 70 cents on the price that we have been told was, on the Class I which would only be 70 cents which I understand to be anywhere from 25 to 40 cents to the farmer depending on the utilization. This would seem to me to be a slap in the face due to the amount of time and energy that was put into getting the

farmers to sign up. I for one don't think that it is right that the government's policy include casein and the importation of casein into our quota and therefore, allowing it to lower our price. Just yesterday, I was talking with an auctioneer who told me that he was selling a farmer's herd this week, that the farmer told him that he was, he, the farmer, had figured it out and he was making 50 cents an hour and getting a percent and a half of his investment. Sometimes I feel if the rest of us would sit and figure more closely, more farmers would sell out. I have heard one man testify this morning that price was not a problem to him, but to the farmers in my area, it definitely is a problem. And I don't think that most of us can afford to work for 50 cents an hour or get a percent and a half for our investment. I know in my own situation in the last year, we grossed \$2,000. We did survive by selling wood and gravel, and then this spring when we had the big flood in our area, it completely washed out our gravel pit, took it down the river so we no longer have that option. I am sure that the things that I am saying here today are not much different from what the rest of the people will testify. I do think it's important that you hear again and again that we do have a low price. Many of us cannot continue to survive on that price. Again, I am in favor of a support price that would be more regional. You have heard this morning that New England is a deficit area; we do not produce enough milk to support all the needs of New England. Many times in the past year, my wife has tried to get me to consider a different occupation but I keep telling her it is going to get better. I truly hope that you people will be able to come up with a policy that will back me up and that we will be able to survive and not have to milk hundreds of cows. Thank you very much.

Mr. Rutherford: Thank you very much, Milton. Tim?

Mr. Carter: I am Timmy Carter, Tim Carter. I come from Bethel, Maine. I am not a too successful dairy farmer, the farm, I have not been, only been a dairy farm, it's only been a farm, dairy farm for about 40 years now but it's been in the family for six generations. Great, great, great grandfather who built the big old house that I lived in was a doctor. I had another grandfather that worked for Brown Company and he made enough money to keep things together while the rest of us lost it all farming. Dairy business is rough now. It's the roughest, I have worked harder in the last 2 years than I have ever worked as a dairy farmer. I probably should have worked harder when I was better but I took some time and enjoyed white water canoeing. I used to belong and go to more organizations and get to my meetings. I now go to very few meetings. As a matter of fact, my 18-year-old son who is running the farm was very angry that I came to you. I told him, you would be, too, if you heard how it is. I think I would really like to emphasize, in our area we are really priced out of the labor market. I used to be able to hire high school kids that were fairly good help, but now with what is going on, anybody that will look at what is going on, they will pay at least minimum wage. I guess that isn't right, I would like to hire, to be able to hire people less than minimum wage to work on the farm. A lot of them have gone on in life and have good jobs so maybe I have helped them right, but we are really hurting with the imports and everything. I have had a hard time getting labor, I think everyone, farmer in the

State of Maine has had a hard time. My neighbors have just sold out. The biggest reason was he could no longer get good labor. He was a very successful farmer, whole deal, very good breeder, he just couldn't get the labor to help him out. This is a real problem. We are just not getting enough money for our product so we have to run like crazy to stand still and usually we are even looking backwards. And we can't afford to hire labor and not the quality of the labor that we should be hiring to put on the price of equipment and stuff that we put into our operations. I am basically opposed to a quota system as a solution to the dairy problem. I came here specifically because I am still a diehard that really believes in the Diversion Program. It's one of the very unfortunate things in the dairy industry that wasn't continued. I realize it was political. I went to a conference in Nebraska, conference in Boston 2 or 3 years ago and I got up, the Diversion Program was up. Their large plan was what were we going to do with the surplus, what happens if the Diversion Program didn't work, people said it didn't work. It didn't stop working, it's like my car, it's not working now, it's at least I hope it isn't, but if it is, somebody is in it. It was working when I drove up, I hope when I get out it will work. That is the Diversion Program, it was working, we stopped using it. I think a little bit better, the total Herd Buyout Program which is also working because it's sort of a less permanent thing and easier thing to get in and out and easier for them to relinquish. The other thing, it was practically all paid for by the dairy industry. The government wasn't helping us do anything we couldn't do for ourselves but we were basically paying for it. And I think that in the long run we have to pay for our surplus but this cutting, continually cutting prices is to me, if you have an infection in your finger or in your hand, one way, the way they used to, they cut it off. They cut your finger or they cut off your hand, sometimes your arm to get rid of infection. Here's the stub, here's where we are 50 percent cut off. We are cutting our hands and fingers off, we are cutting our industry out. The nearest tractor dealer to me now is 40 miles. This makes it even harder to stay in business and in the northeast, we are really getting involved particularly in Maine, we are down to around 800 farms. We have a critical problem, and that's I guess the best way to figure the amount of miles the truck has to go to pick up milk. Particularly from the farmer's point of view, when you have to drive an hour to get a part, that hurts. I think as I said, I think the Diversion Program was a great program and I hope that maybe in the future it may become politically salable. I know there are some farmers in some large farm organizations that were against it. I thought it was a case that the government help the farmers help themselves and I think that's the purpose of the government. I am very salable. I would hate to see the marketing orders done away with, the Federal Support Program and things like that. The only way we could do away with the Federal Support Program is if we would all join cooperatives or other marketing associations and then maybe even better, if all those would decide to get along with each other. I don't think that's going to happen and without that for each individual farmer to stand up with any type of government structure or any government supply support program is like milk going down the tube trying to plan for New England farmers. I don't think I would stay. A very good saying and chance the farmer

would, we would be up against big industry. That's one of the things that the farmers and the government have made. A partnership. We have created a greater food-producing system that has ever been known in the world. And I think that's something to be proud of, not ashamed of, and I think it needs a little fine tuning. I think that Section 22, I think it's the right one, it maintains our protection against imports, needs to be maintained in the GATT Talks if we are going to maintain a viable dairy industry. I understand that we probably can compete with any country on an even footing except maybe New Zealand and their plants, those big producers. If they would be that much of a threat to our market, but when you get involved with dumping, I would say if you would do anything with it, if you could, you find a food program to not have the dumping but I think that's again pretty much a program. I think that we as a dairy industry, and I hope that you people are in a position to voice on that, we need protection against dumping of other people's surpluses in the northeast. I am a little bit skeptical. I sat across the table in Chicago one time from a man that said that our surplus problem went in the northeast. It was in the Midwest and having him telling me in very definite terms, he just said, I said the surplus is a national problem, don't you ever forget that. I am surprised that some of these people from the Midwest haven't pointed that out to some of the people that have been up here testifying. I do think that we have some problems but I think we have to look to a national solution. I guess the only way we could regionalize is with a differential in pricing. But I, I think we do probably have some higher costs of production. I think it's partly our mass, critical mass issue, traveling further and our shorter growing season, but I think regionalization has to be put on the back burner to a total solution to the dairy problem. If we couldn't produce milk in the northeast, that is bad. And the problem with the northeast, though, is that when dairy farms go out of business, they go out of farming. Usually they go into recreation, they go into housing, and they go into trees. Trees you can clear, but the farmer would have to be a lot more profitable than, to clear many trees, this to raise cows. In conclusion, I guess as I have said, I have been on my farm six generations and I have always thought dairy was important. He asked me to come here, he said I don't know what you are going to do if they cut us another 50 cents, I am thinking of going. I said well, I guess that may be an idea and I guess I will to. I can sell my farm for a lot more than it's worth because with the ski areas coming down and building condos. In fact, there was a 60-acre area I have sold for \$500,000 to build condos, but they are going to keep the farmer going. I asked for a million and they wouldn't give me that. I priced my farm out, it's 175-acre farm, I milk about 70, 80 cows on it. \$600,000 is what they listed it with the realtor. I hold out for a little bit more than that but with another 50-cent cut, I don't know, it's going to be awful tempting. Thank you.

Mr. Rutherford: Thank you, Tim. Are there any questions? Dick Shade?

Mr. Shode: Are any of the dairymen in your area interested in supply management in any form?

Mr. Carter: I would say yes, they are. I think, I think they were a lot more interested in it 2 years ago than they are now. I think that when everybody 2 years ago was really

toting quotas and I think that most of the people that were looking at it, they sort of backed off from it. They have looked at what is said and the way it really worked in Canada, and of course when you weigh Canada's price to our price on the dollar differential, it isn't so precarious but I think that's not fair because they are dollar buys as much for them up there as our dollar does for us here. I think there is something worthy about some of the ramifications of tight independent Yankees with the tight government controls. What would you say?

Mr. Sinclair: I would say that that's probably true, that most people would rather have some kind of supply management than they would have a quota.

Mr. Rutherford: Jim Holte?

Mr. Holte: Milton, you indicated you felt that the prices were too low and were making it difficult to continue farming. Do you have any feelings as far as how you would correct that situation? Are you talking about regionalism with differences in prices to correct that situation?

Mr. Sinclair: Well, Number One, I don't feel that we can survive this 50-cent cut that is coming up in January and that's the Number One solution. But then due to the fact that New England doesn't produce enough milk for its own consumption, I think a greater differential in the Class One pricing problem would help, you know, quite a bit because that would increase our price support.

Mr. Holte: But don't you think that if the New England area is deficient in Class One milk, that this 50-cent price change in price support is not going to affect you at all? If there is a demand there for the product and it's becoming difficult to supply that product, wouldn't the support price be a moot issue?

Mr. Sinclair: It will be, but not 100 percent. You see you understand the support price and you understand the blend, we are going to, we probably wouldn't take the whole 50 cents but we are going to get a portion and so it will be effective, yes.

Mr. Carter: I was writing him a note that one of the problems we have in this area, I think from the most, probably for the State but particularly the whole northeast, we have a tremendous amount of independent producers. We do not have a strong participation as we should in marketing and cooperatives, associations and cooperatives so we cannot overprice our milk like they do in North Carolina and in the southeast. You have a very strong RCMA down there, you also have 80 or 90 percent of your people in cooperatives. I think if you take the whole northeast, we are down to 50 or 60 percent and we are trying to get a RCMA going. We have been 2 years doing it. Now, I think we are only asking for pennies, we are not asking for any more. We couldn't hold it because we have so many people that are independent and there is no way to hold them in there, is that right, Mr. Rutherford?

Mr. Rutherford: I am going to ask the gentleman from North Carolina to respond to the high milk prices, Gerald Aycock?

Mr. Aycock: With reference to the RCMA, we call it Sunbelt Federal in the southeast. Overpricing has been very effective

and about 50 percent of the producers in North and South Carolina are independent. They really have had their backs against the wall and now they are ready to cooperate.

Mr. Rutherford: Fred Douma?

Mr. Douma: You said the New England states aren't in balance, they don't produce enough milk for the dairy product consumption. We are probably getting pretty close, but California also produces slightly less milk than the dairy product consumption. The problem is our consumption has helped though in the greater part of Minnesota and Wisconsin. Now, is California a deficit state or a surplus state?

Mr. Sinclair: From what we hear in New England, California is a surplus state.

Mr. Douma: Because of the help that we get from a few other states?

Mr. Rutherford: As you can see, the whole problem is not easy. It depends where you sit geographically and how you may view solving the problem. Gerald Aycock?

Mr. Aycock: I would certainly encourage you to try to get all the participation you can in your area for overboard pricing. It can certainly be a real effective tool to put dollars in a dairy farmer's pocket.

Mr. Rutherford: Again, the type of testimony you gave is very important because it comes from the heart and from the family income side. We appreciate it very much, gentlemen.

Mr. Carter: Thank you and I wish you a lot of luck with your very difficult task.

Mr. Rutherford: Thank you, gentlemen. Next, I would like to ask Cindy Rubinfine, Steve Pratt, Sharon Rowell, and David Blanchard to come forward. Cindy, are you going first?

Ms. Rubinfine: I am going first to get it over with. We started dairy farming in 1980. The prices of farms and machinery and cows were all quite high then, the price received from milk was high also. FmHA thought we could make a go of it, we did too. The latest *Hoard's Dairyman* has a very eloquent graph which shows the consumer price going up gradually and farmers' prices that we receive going down drastically.

Mr. Rutherford: Do you tend to agree with it?

Ms. Rubinfine: I tend to agree with that certainly but we are hearing consumers aren't benefiting. I feel that the processors are making record profits, and I am a little concerned that since they weren't complaining back in 1980 maybe they have become a little too greedy. I look at the northeast, our co-ops are asking and begging for more milk. Secretary Lyng was here last week and he told us not to make any more milk because there is going to be an oversupply and we are going to have that 50-cent price cut in January. It's hard to know who to listen to when you are just a farmer working at home, but I think we have to listen to Secretary Lyng this time. And I think that we need a supply management system nationwide and I mean a quota system. I mean like the Harkin Bill and the reason I think that is because if we do it by region, I agree with Paul Stone for a change, it's too divisive. We can't all agree with each other. I don't want

to kill anyone in California and I don't want them to want to kill me. I don't think that's fair. I think to save farms at all, we are going to have to make it a national thing. I would like to read a letter actually from a farmer in Canada that was in this regard. I'll just read, it's a few sentences. He says, "It's very interesting to read about the problems in the U.S. dairy industry system. It makes me appreciate our own supply management system." That's the whole letter. But the hand-out that I gave you sort of points out who is funding the battle against the Harkin-Gephardt Bill. I will name you some of my names—Cargill, Continental Grain, Nabisco, Pillsbury. I think it's pretty obvious that these guys don't have the farmers' interests at heart. It may not be as obvious what our co-ops are thinking about, co-ops who have business management programs and are supposed to be marketing organizations for farmers. Some of our leadership says that under national production cutbacks, the northeast would lose its milk market. Under the 1985 Farm Bill, Vermont lost 10 percent of its dairy farms last year. Looks like we may lose another 10 percent this year. We are also losing our market. It would be good to keep some of our farms. I think we keep our market better by keeping our farms. If we don't help to preserve family farms in this country by assuring a living wage to our farmers, we won't have food. I think we should have a quota system with a fair price legislated which is what the Harkin Bill calls for. I think that in the not too far distant future our food for our whole country could be produced by a handful of large corporate farms. I have heard the figure of 5,000 farms of 500 hundred cows apiece. I think there are many good reasons for not letting this happen. First of all, I would like to predict a decrease in the food quality business of this, due to the fact that those employees without vested interests aren't going to be as careful about what they are doing. And I also predict sharp rises in food prices when all these big corporate farms get together and set the price. I have heard it said that only the poor managers are in trouble and we must give the 1985 Farm Bill time to work. I think we all know by now that neither of those things are true. Young people like us who got in when prices were high and saw the floor drop out from under us, we are in trouble. I don't think anyone who knows us would call us bad managers and I don't think that the 1985 Farm Bill is working either. We need long-term answers, not stopgap measures. At the very least our processors are going to have to share with us so we can keep our price for our materials and our co-ops will have to do better than keeping a large share of the profits out for plowing back in among programs, and then raise equity requirements so no cash has to be returned to members, or at least very minimal amounts. I think it's pretty clear in some ways what our choices are. You can choose between family farms all over the country or you can choose between that handful of farms controlling the prices. My husband will have more to say about why it's desirable to keep some family farms. Thank you.

Mr. Rutherford: Thank you, Cindy.

Mr. Blanchard: My name is Dave Blanchard, I am Cindy's husband. My testimony is going to be a little bit different from most of what you have been hearing today in that it's going to be a bit more general and oriented a little further

into the future. I think that's a sensible thing to do because one thing that has characterized our farm policy during the 1980's is a time frame of 3 to 5 years. We seem to lurch from one crisis to another and see stopgap or Band-Aid type solutions applied to the problems which may or may not work. But the industry has been characterized by quite a bit of uncertainty. Since your charge is to look at future policy options, I would like to encourage you to look at least somewhat beyond the 3- to 5-year time frame and look 20 to 30 years in the future. I don't think that's unreasonable in that that should be within the lifetime of many of the people in this room. To help you look at the course that agricultural is going to be taking at the turn of the century and beyond, I am going to give you a few projections about population and about energy. It took all of human history up until just 200 years ago for the world population to hit one billion. By 1975, it was four billion. Today it's five billion. By the year 2,000, it's going to be six billion. In the 25 years between 1975 and the year 2,000, that is an increase of 50 percent in world population in just 25 years. Because population growth has such tremendous momentum, world population of 10 billion is really not very far down the road. All these people are going to need food, they are going to need clothing. They are going to need water and they are going to need space to live. That means agriculture is going to have to increase production drastically to produce the food and produce the clothing. At the same time, all of these extra people are going to be competing with agriculture for land in that people need space to live in, also for water, also in many other ways. Now, let's look at the energy resources for a minute, specifically oil. Geologists have estimated the total amount of petroleum that's in the planet, talking about both known resources and resources yet to be discovered. The figure is something like 2,000 billion barrels. Around the turn of the century, just when the population is hitting six billion, we are going to cross another interesting watershed which is that we will have used the first half of all that oil, most of that would have happened just within the last 50 years. That isn't to say this oil is going to suddenly run out but what is going to start happening is that the cheap, easy-to-get-at stuff, the stuff that can be pumped for 50 cents or a dollar a barrel, that's going to start getting scarce. We are going to see the price of oil rise dramatically. When that happens, people are going to start looking at substitutes. The only substitute that is a renewable resource is agricultural products. From ag products like corn and many other things, you can make alcohols for motor fuels. Ag products can also be used for many other industrial processes that are currently based on petroleum. The whole point of all of this is that within the easily foreseeable future, farm production is going to have to increase enormously to feed the expanding population and to start replacing nonrenewable resources. We are going to go from the present situation where we are plagued by surpluses, we are wondering how to get rid of all of this stuff, to a situation where every acre is going to have to count. For the first time in history, the human race is really going to start pressing up against some of the absolute physical limitations of the planet. I think that it's not too early to be thinking now when we think about policy to be thinking about these future needs that are going to be placed on agriculture. Farms and farmers are one of our Nation's most

valuable resources although from the way that we have been treated during the 1980's, you would hardly guess that that's the case. And although right now we can produce more than what we need, I think I have shown how in the not so distant future we are going to need all the production capability we can muster. I think a wise ag policy would recognize today that this future need will exist, and will take immediate steps to try to maintain our present production capacity so that land and the people who know how to work that land are right there when they are needed. So, the question becomes what structure for agriculture will best be able to meet these demands. Looking specifically at the dairy industry, are we going to have 5,000 farms with 500 cows or are we going to have 150,000 farms with 100 cows or less? In some places, some parts of the country, the thousand plus cow farms work well. In other places, they don't. Here in Vermont, they don't. Because of climate, because of topography, our farms tend to be smaller. Our fields tend to be smaller. They don't lend themselves to gigantic machinery, and the natural and most efficient size for the farm unit is what you see called the family farm which is the moderate size farm that is operated largely by the owner. How are we going to keep these farms and farmers in production so that they are there when we need them? I think that the answer is that somehow we have got to provide a fair return on labor and investment. We lose farms here in the northeast largely because there are more financially attractive things that can be done with the land. Fellows from Maine, you know, when they were talking about 600,000 bucks for a 170-acre farm, to me that is making money. I have 150-acre farm and it's worth maybe \$150,000. According to one of the leading articles in the latest *Hoard's*, here in the northeast the average return on investment for northeast dairy farms in 1986 was zero. In fact, it was worse than zero. It was a negative number. That article in case you haven't seen it is from a survey done by the Springfield Bank. I think that to provide, here in the northeast, a fair return on our labor and investment, we need a price in milk ranging from \$14 to \$17 a hundredweight. I give that range because obviously, it's going to depend on what the price of inputs would be, especially the price of grain. The only proposed piece of legislation I have seen calling for prices in that range is the Harkin-Gephardt Bill. This bill may not be perfect, but it at least recognizes the importance and value of our family farm system and it is committed to preserving that system. I would like to encourage you to give that bill serious consideration. Think of improvements for it if you can. It's open to improvements. It's a farmer's bill, but don't write it off. Thank you.

Mr. Rutherford: Thank you, David, Steve Pratt?

Mr. Pratt: I am a native Vermonter. My state is up for grabs. Real estate people are having a field day. The last buyout, the present low milk prices just adding fuel to the fire. We need help, quick, I think that's what I want to impress upon this Commission the most. The longer that we wait, the more farms we are losing. As it has been said earlier, when farms are lost in this part of the country, they are lost for good. It's usually going to development because of the population pressures we have from outside. As David just said, I think the Harkin Bill best answers the needs of this area.

Most of the people that have testified earlier have talked about supply management but when they talk about quotas, they get pretty upset. I myself have talked to a lot of farmers that feel the same way. I have talked to my state representative who was going to vote on a resolution whether to support the Harkin Bill in the state legislature. I talked to him about it, he was at the time set against it, basically because of the word quota. That was interesting and after talking with him, that he knew almost nothing about the bill, and I find that this is also the case with a lot of the farmers. I think as I sit here, I think the thing that we need the most is a new word for quota. I don't really have one but I think I will work on trying to come up with one. But I just find that—

Mr. Rutherford: Just don't call it taxes.

Mr. Pratt: I found that when the word quota is used, people immediately are turned off to it, but my feeling is that I am willing to trade a little bit of freedom for a higher price and this is what the Harkin Bill best addresses. And I think a higher price is what we need most, is what we need now. And the same with the regionalization. I think it makes a lot of sense to have a regionalized plan, but obviously in the past, maybe that's because, because it does make sense is why it wouldn't be passed. I think we have to stick together. It's not going to do the farmers any good to fight amongst each other. We are in the minority now, and if we don't stick together, we will never accomplish anything so I am willing to trade a little freedom, trade the regionalization problem for a higher price. And I think as I have said, I think the Harkin Bill best answers those problems. Thank you.

Mr. Rutherford: Do you fully understand how the Harkin-Gephardt would affect California?

Ms. Rubinfine: The same way that it would affect Vermont.

Mr. Rutherford: My understanding is that that's not the case. If someone would please help me because I think that's important.

Mr. Blanchard: How do you understand that this would affect California?

Mr. Rutherford: I am not picking on my friends from California, but I think it's important if we talk about a concept collectively, that we make sure we understand all the rules. My understanding, because of the way California is structured and the way that the bill is written, California would not have to reduce production under the controls of the Harkin-Gephardt Bill. But then they could compete nationwide as a free market or as to whatever level they could push their product across to the Nation. Would someone help me better understand? That's the way I understand it.

Mr. Blanchard: I haven't heard that before. I would be interested in knowing, obviously there is some technicality involved here, I would be interested in knowing.

Mr. Rutherford: Dave Dyer has just addressed that. That's part of the legislative package. Fred or George from California?

Mr. Douma: Basically my understanding is the ones who are participating are not our volume producers. Therefore, we are not out of the program. We get nothing out of the government programs as far as the Nation or a market for Cali-

fornia product. It is always an interesting thought when you have a \$16, you talk \$14 to \$17 price here, if you have one area of the Nation with the ability to move products in at a much lower price, how could you maintain a \$14 to \$17 milk price?

Mr. Blanchard: Right, clearly you can't. Now, why is it that California would be exempted from the bill? That's what I haven't understood yet.

Mr. Rutherford: I think it is because of the way the bill is written; is that correct?

Mr. Blanchard: Mr. Chairman, if I might, the bill itself places a limit on the fluid milk that could be marketed.

Mr. Rutherford: I think that limit is a million and a half pounds.

Mr. Blanchard: That's not correct.

Mr. Rutherford: I beg to differ. The legislation that has been introduced in the Senate, Mr. Gephardt's Bill in the House does place this limit. I have had correspondence from some people pointing this out.

Mr. Blanchard: What the bill proposes—that million and a half pounds limit—has been the source of a lot of confusion. The bill is, as I understand what you are saying, that anybody who is currently producing over a million and a half pounds would be forced to cut back to that level. That is not true.

Mr. Rutherford: No, that's not true.

Mr. Blanchard: I misunderstood what you were saying.

Mr. Dyer: What this document was saying was that this production, California production in excess of a million and a half pounds would not have been supported at 70 percent or escalated parity rates. In that event, the ability to ship products at less than \$16 or \$15, \$16.5 or \$15.02 depending on where the support price would be set, would enable a California producer to market milk elsewhere at less than that amount.

Mr. Blanchard: But as I understand it, that price is mandated by the bill and I believe it's 25 percent of the 70 percent of parity price in which case you are talking about \$4 milk since, as I understand it, the states in particular cannot refuse to participate in the program. All dairy farmers in the country will vote on it and if more than 50 percent accept it, the whole country will participate at a rate of cutback which is determined by the Secretary of Agriculture by how much cutback is needed. We will all have equal cutbacks.

Mr. Rutherford: The only reason I am raising this issue is because I want to make sure everybody is making their decision based on the same information.

Ms. Rubinfine: Have you read the bill?

Mr. Rutherford: Yes, I have. I know it continually changes and I am not sure that I am completely up to date. I think we ought to talk about some of the potential problem areas we face when we come up with possible solutions.

Ms. Rubinfine: If more than 50 percent of the country's farmers vote in favor of the bill, nobody is exempt.

Mr. Blanchard: Let me see if I make sure I understand what you were saying. You are suggesting that people would be able to sell their over-quota milk at a price less than 70 percent of parity but a price that would still be attractive enough to them so that they would be able to produce? My understanding of the way at least of the readings of the versions of the bill that I have read is that it is not the intent of the bill that this would be able to happen. In the way that they have attempted to prevent that from happening, the bill mandates that the price received for over-quota milk would be so low that there would be no economic incentive to produce it. And if my memory serves me right, the figure is 25 percent of the 70 percent on the parity price so \$4 to \$5 a hundredweight range.

Mr. Rutherford: But I think the problem that I was trying to address is the farmer making his own blends. Fred, what was the California middle price last month?

Mr. Douma: Statewide average, Federal Order, \$11 at our price.

Mr. Rutherford: \$11 California, that's the blends. And labor costs in California, average what, per man, per year, or hour or week?

Mr. Douma: The average man is making \$24,000 to \$25,000 a year. How we level this out regionally is a real problem and that's the only reason I brought it up. I didn't want to take it way off base, but we need to bring it all back into perspective. We have to come up with some recommendation and I want to make sure I understand it. Are there any more questions?

Mr. Rutherford: George Mertens?

Mr. Mertens: Cindy, would you give me a definition of a family farm or operation?

Ms. Rubinfine: It's a point well taken. Certainly I would say that Bob Foster has what I would have to allude to as a family farm yet they milk 300 cows which to me is a large number. What I am getting at is a farm run by a family whether it has 20 cows or 1,500, not by let's say Cargill as an absentee landlord.

Mr. Blanchard: Maybe instead of the word family farm, I think owner/operator.

Ms. Rubinfine: Owner/operator, not just owner/owner.

Mr. Blanchard: Is what we are getting at—?

Mr. Mertens: Cargill is an owner/operator family.

Ms. Rubinfine: That's true.

Mr. Mertens: My conclusion is that less than half of 1 percent are corporation farms. We had a few in California, but they have all gone broke. I think there is one large corporation farm with investor money.

Ms. Rubinfine: There are several here.

Mr. Mertens: There are very many family corporations but they don't have outside investor money. There is only one in the northern part of the state that I know of.

Ms. Rubinfine: What I guess I am talking about is a family farm which is run by families. Certainly Bob's brothers and uncles and nieces are family.

Mr. Mertens: That's what we have found out. This kind of farm you are talking about, these huge corporate farms, they just don't exist, at least not in California.

Ms. Rubinfine: I guess I wouldn't absolutely definitely know that many farms or that many, I mean family, or if you don't like the family definition, what about Masstock? Do you want Masstock to take over the family farm?

Mr. Mertens: I don't.

Ms. Rubinfine: Nor do I, but if we don't protect existing farms like ours or perhaps you own and run by your family like children developed with, instead of 1,500 migrant workers or something like that, I don't think anyone could argue that Masstock is a family farm. I don't think that this dairy farm you could argue is a family farm even though the Cargills are a family. Everybody who is a human being or an animal has a family. It's not the same thing.

Mr. Mertens: I also agree with you that the decreasing support price doesn't take care of the inefficient or the poor managers or the good managers.

Ms. Rubinfine: Not if he inherited it from his great grandfather.

Mr. Mertens: Would you let me finish, please. On land use, I am a planning commissioner in Sonoma County, California and we have a problem. We are right above San Francisco. There is no crop or commodity that can compete with houses. We use zoning restrictions and transfer development rights. You want to get into that to protect the farms in your area. In the Sonoma Valley, if we didn't have zone restrictions, those places would be developed and cut up into little 5-acre pieces and on down over the years.

Mr. Rutherford: Gerald Aycock?

Mr. Aycock: I am not here to argue a point, but in addressing the Southern Dairy Conference, the president of Masstock said that their operation was a family farm operation. I will just leave that with you.

Mr. Rutherford: Fred Douma, last question.

Mr. Douma: A previous witness stated that prior to this year, he was able to get high school labor for less than minimum wage. We have a different problem in California. I am willing to pay \$6 an hour for labor, milkers would get paid much more than this. I have taken high school kids out of Taco Bell. I had to go back to migrant workers and pay them \$6 because the other kids didn't want to work.

Ms. Rubinfine: I have no problem with migrant workers per se. I am sorry, I didn't realize you had a huge farm or needed many workers. We hire nobody and we work our butts off all the time, but if we made more money, if we received a fair price and if we could hire somebody we would be happy to pay them more than minimum wage because certainly they deserve it. But we don't make minimum wage ourselves but make probably 50 cents an hour. We haven't been ones who wanted a lot out of life. We don't take a vacation. We don't drive fancy cars, we haven't wanted to. We wanted to be able to pay our bills.

Mr. Douma: Are you able to do that on \$11 milk?

Ms. Rubinfine: Yes, but it's a lot cheaper for you to produce your \$11 milk than it is for us. My grain prices are higher, I keep my cows in the barn all winter, I don't feed alfalfa all year round. I can't feed green chop all year round. It's a very big difference and that's why the 70 percent in parity pricing in the Harkin Bill would be a larger percentage for me and a slightly smaller one for you as I understand the bill because it's reflected by the prices of everything that we would have to purchase as opposed to everything that you would have to purchase. And so we would both make good livings under the bill, is that correct? Is my understanding correct?

Mr. Douma: Is there more than one parity price?

Mr. Blanchard: No, that is national.

Ms. Rubinfine: Okay. I thought that was reflected, I am sorry.

Mr. Blanchard: The bill does preserve the class differentials so we would still get more money for our milk than you do because of the class differentials. Okay.

Mr. Douma: We have 40 percent Class 1 usage.

Mr. Blanchard: We have 50 percent.

Mr. Rutherford: Okay. Are there any further questions or comments? If not, we thank you very much for your testimony. Next are Nancy Thomas, Ted Young, and Chris Laggis. Would you all come forward? Nancy, are you going first?

Ms. Thomas: I guess so, thank you. My husband and I have a small dairy farm in East Montpelier where we have been operating for 4 years. We have six registered Jersey cows which we purchased with an FmHA loan. We rent the farm and adjoining pastures owned by some other farmers and we pretty much operate on a purchased feed basis. And we do that primarily to decrease our capital expenses since when we first got into farming on our own 4 years ago we needed to concentrate on the capital that we did have which was small in the purchase of the cows and in setting up the operation. And so we rent the farm and we have only one tractor and one manure spreader and what that means is that we have high operating expenses but that we have had low capital investment relatively speaking. And we have an intensive rotational pasture system which has worked very profitably for us for 6 months of the year, the rest of the time being snow and winter here. We rotate our milkers once a day into a new pasture and that has worked extremely well for us. We have four sources of income on our farm and the primary source, of course, is the sale of milk through Cabot Co-op, and that has been an excellent market for our milk since we get protein differential which benefits us with the Jerseys with the high solids and high quality milk. And there is also an excellent quality program which pays on a per pound basis for the high quality milk. Our second source of income is the sale of registered Jersey stock. Our third source of income is through Cabot profits and that has been an increasingly important source for us. Cabot has been a very innovative company and has increased the profits to the members of the Co-op significantly and with evaluated product, I see that as an increasingly important source of income as the years go on. Another important source is my salary and I work part-time with special education and that

has been an important way to level out the ups and downs in the farming income and to help us develop equity in our farm. With some being with very little money, we need to get capital somewhere and my work has assisted with that. As a business plan, that combination has worked really well for us. We are very enthusiastic about the dairying business and especially our association with Cabot. We are concerned about the longer, longer term future for the dairy industry and for ourselves as small-scale producers. As young farmers just beginning to get ourselves established, I don't have specific recommendations for a specific program, but I would like to suggest some elements that should be included. First and foremost is the need for a stable and predictable price. As with any business, we need to look down the road 1 year, 5 years and more to plan where we are going. Since we have been in business on our own, there has been a Diversion Program with assessment, the dairy termination with assessment for those staying in the business, and there have been price cuts and it has been very difficult for us to plan. A few weeks ago our electricity went out. We had lightning that struck a pole right near our house and all I could think about is when are we going to be able to afford the thousand dollar backup generator so that we could continue to operate in case of electrical outage. And without having predictable prices, it's very difficult to plan for those kinds of capital improvements. The price and supply management system should reflect the ability of a region to sell its products whether they be through assessment, price cuts or mandatory production cuts. The system should not penalize those of us with more any more than for the surplus production in other areas. We have all dairy farmers across the Nation paid the price for the national surplus. We have paid our dues and those maintaining the programs have been successful in getting production in line with commercial demand. The milk market here in the northeast is now tight. However, if a new national surplus begins to develop because of production, of commercial demand in certain regions, please don't let that whole region pay the price again with production cuts, price cuts, or additional assessment. Such an approach would further divide farm numbers here in Vermont which is the most dairy intensive state in the Nation. And it would further damage other related areas of the Vermont economy as dairy farming generates considerable off-farm business and is an important focus of the Vermont tourist industry. Let's recommend the policy that addresses the source of any future surplus.

Secondly, as young farmers we need affordable and reliable financing. This industry like any other will stagnate if it's not renewed within the next generation. That is both sons and daughters with existing farmers buying into the home farm and people like ourselves entering without family farm equity. While successful dairying requires a high level of management ability, it also is a capital intensive business and young farmers need to be able to borrow at reasonable interest rates in order to gradually build equity in cows, equipment, and property. Our hope of some day owning our own farm will be realized only if affordable financing is available, and then there is a need for a regional approach in solving the problems of the Farm Credit System.

Thirdly, we need to continue the development of a strong market for dairy products through research and promotion at the national level. The national assessment has really worked. Commercial use of the dairy product is up 3.9 percent since 1985. The advertising has really paid. And while small cooperatives such as ours with 500 members cannot make significant investments in basic research and product development, the National Dairy Board with funds from all dairy farmers can support research into such things as lower cholesterol dairy products. Such developments could further increase commercial use and ultimately benefit all farmers.

In conclusion, I guess I would just like to thank the Committee for taking the time to go around the country and hearing different opinions and I wish you well in your efforts to develop an appropriate policy that can fit all the needs across the Nation which are very diverse. Thank you.

Mr. Rutherford: Thank you, Nancy. Ted?

Mr. Young: I am Ted Young. I have a dairy farm, my wife and I have partnership in a dairy farm, 55 cows in northern Vermont. We make some of our living from pure Vermont maple syrup. We make about 500 gallons a year. It's strictly a family farm. My father owned the farm before I did, it was not passed down further than that. We hear about how everyone that has inherited the farm or I kind of think I have paid what the farm was worth. And I have to, I have to admit that we have prospered over the years. I think I inherited more, I didn't inherit the material value of the farm but I admit that it has been made easier because of the other things that I have, nonmaterial things that I have gotten from my family. That includes my children and my sister now works for me full-time and basically my wife's teaching salary goes to pay her but she would rather teach. She used to milk the cows and now she teaches the kids instead. I come here I guess with a concern not for myself because I and my farm will survive, we have. When the milk was higher and times were good, we were able to get our own house in shape so we can survive the hard times. But it's with the concern of what the next owner, be it one of my sons or someone else, how they can own this farm and keep this farm going. I know full well that given our million pounds, the milk that we ship each year, that they will not be able to stay at this production level. And it scares me to death to think that I will be a farmer that hasn't increased his production much over the last 15 years that I have been farming, that I will be tied to this inefficiency. It works for us fine. We teach school and we make a little syrup and do a little this and that, and it works just fine for us and we like it that way but I would hate to, awfully, to be tied to these inefficiencies. It would be a real burden of keeping the farm in a farm. One thing that I think that we need most is more predictability and not jumping around from one program to another. And we are part way through a farm bill that, I will be damned by many people in this room, but I say that it's working. In the last year, it has been significantly better than it had been. I would like to be left to make production decisions based on market signals and I think these market signals, be it from the open market or from the government should be clear and not jumping around from one thing and another. I think the current price program has worked well and I think the Diversion Program would have worked well if it had been over a

3- or 4-year period, not just allowed to delay the production instead of divert it. I term the Whole Herd Buyout Program as being a success and it has taken care of the surplus at least in this part of the country. I would term the dairy industry in pretty good order right now, living in a region where the surplus is not a problem. But right now, we do have a problem and we are getting two contradictory signals. One is to produce more locally, more production is called for, and yet, we are having a price cut held over our heads. It's hard to, it's hard to produce under these two different signals. I guess my question is how many times must I pay so others can expand. The dairy industry has had a real successful program in the ad program. It has allowed us to sell a lot more products and I wish that I thought that that's all we needed was to sell more and more. I do support that part of the farm bill and I think we have something that's really working. We would do well to expand in that area, and I would support expanded advertising. I guess I would ask in any new policies that you come up with not to penalize me and my co-op and my region because someone else is producing a product that no one else but the government will buy. Let those that won't produce the quantities and kind of product that the market demands bear the burden. Thank you.

Mr. Rutherford: Thank you, Ted. Chris?

Mr. Laggis: My name is Chris Laggis, I am from East Hardwick, Vermont. My brother and I own and operate a 55-cow Jersey operation. We have about 90 head in all and we also have a 1,500-tap maple sugar operation as well. We have both been farming as partners since the spring of 1980 and since we have been farming, we have seen constant consistent price cuts, I believe starting back in the spring of 1980 and continuing. I feel that what we as dairy farmers here in this region need is a consistent program for the future. We try to plan our businesses 3 and 4 years down the road and it's difficult to do that when you can't have at best a conjecture trying to plan what the price of your milk is going to be. However, I feel we in the East aren't as bad, perhaps, as other people in other parts of the Nation as far as the price that we have received for our products. We have become better managers on our farms. It takes a crisis to make you a better manager. As far as price cuts are concerned, we are doing many more efficient, much more efficient farm practices than we have in the past, utilizing our forage better. So that's the positive signal, but I really—this word quota or supply management that is used a lot in the Harkin Bill, I really resent that whole concept. When I implied a deficit market here in the East and my market isn't contributing to the surplus, and so like Nancy made the comment that there are outfits or cooperatives like Cabots that are really being super innovative in marketing their product and having a hard time meeting their market right now because there is just a shortage of the raw product, and I think there is a real gold mine to be tapped in the dairy industry as far as products are concerned. I think that part of the reason we are in that mess is because there has been apathy among processors and dairy farmers as far as not being innovative marketers of our product. You look at what Coca-Cola and Miller and Budweiser, the millions and millions of dollars that they spend on advertising and product

development and we haven't done that as an industry and that's why, a big reason why we are in the current mess that we are in. Now, I just feel that if you take a region that is already short of milk and perhaps make it even shorter, I know there has been talk of, you know, the East can meet some of their fluid needs, the Class One needs and perhaps there would be such a thing as surplus dairy product use in the Midwest. That can take care of the Class I needs but why should we have to take a backseat from the Midwest when we have organizations here in Vermont that are doing very well producing Class II products that can meet the needs of this market and another, that's free enterprise as far as I am concerned. I don't think you should limit that to one part of the country or the area. And I just would like to say that I would hope that we look at the situation on the more regional level and look at where the surplus is coming from. And I would hate to see us be too hasty with it because the present farm bill isn't actually done yet. We as dairy farmers spend a lot of money on the current farm bill and I hate to see us jump around into something else. It's a quick fix and get into little problems and jump around a lot. I don't think that we should be quite as hasty. And the other issue I would like to address is the credit situation particularly Farm Credit. It seems that we in the East want to be made to pay for the problem out in the West, too, as well, and we have had our house in the last 10 or 15 years as far as credit has been concerned. We haven't—foolish loans weren't made or loans weren't made as far as repayment ability was concerned. It has been looked at a lot in the East. I realize that people can say one of the reasons why Farm Credit isn't too bad in the East, land debts are much higher, but I also feel that we have had fairly conservative bankers that have made good judgments and that's why we are in the situation that we are. And it's not fair to northeastern borrowers to have to foot the bill for maybe irresponsible actions that happened out in the West and if that does happen, we are going to all pay for it and increase the interest rates that we have to pay for your money. I would also like to say that as a young dairy farmer, I would like to thank this Board for coming to Vermont to listen to the testimony from farmers. And I would like to see a consistent policy, more consistent than it has been in the past, and we are going to have to start looking, I believe, at regionalizing problems. That's all I have.

Mr. Rutherford: Thank you, Chris. Jack Laurie?

Mr. Laurie: Do all three of you belong to the same co-op?

Ms. Thomas: Yes.

Mr. Young: Yes.

Mr. Laggis: Yes.

Mr. Laurie: I would just like to make a comment. I am impressed with your testimony, my comment would be that you talked about free enterprise. Really when you get right down to it, if you really believe in free enterprise and if I can produce milk in the Midwest and put it into New York City for what you can put it in there for and I elect to do that, then that's really free enterprise, isn't that right?

Mr. Laggis: Yes, it is, but if, sure, it is, but I am not talking about the fluid milk, I am just talking about the Class II prod-

uct. If there is a quota system that is imposed as a nationwide situation, then we have a shortage of that product so therefore, we can't compete with you and that quota is determined by the government. I mean so that puts us to the disadvantage right off the bat because we don't have the raw product even to compete with you.

Mr. Laurie: If you take away all restrictions on production, then he who can produce the cheapest will produce the product, is that not right?

Mr. Laggis: That's true but as I say, I believe that as far as we are not, we in the East are competing with you in the West as far as Class I is concerned. But as far as Class II products, our Cabot Creamery product is up against Land O'Lakes and the Midwestern products and they are doing quite well as I understand it. So we are competing now but if our supply of raw milk, raw product was taken away, then we would have no means to compete with you as well. So yes, I do see your point.

Mr. Rutherford: Fred Douma?

Mr. Douma: I believe that Cabot Creamery is doing a great job, and that is really because of the support program. But if you look at the fact that the northeast in essence doesn't use the CCC, do we need a CCC support program then for the northeast? Eliminate it, then the rest of the areas of the Nation will have to take care of their own problems and market under that scenario. What happens to the market in the northeast?

Mr. Laggis: You are talking about the fluid?

Mr. Douma: No, I am talking about the Class II. You are doing a great job of marketing because the support program is in place. If you eliminate the benefit that the northeast gains from that support price, eliminate it from the rest of the Nation, you are saying that other areas of the Nation should pay for their problem, their surplus, and that we should eliminate the support program. That says to the rest of the areas of the Nation, "You have a surplus, you have to market it. The government isn't buying this product." All of a sudden that product is in the New England states at a lesser price.

Mr. Laggis: So you are saying there is—

Mr. Douma: I am trying to say that there really is a tie between the northeast and rest of the Nation also.

Mr. Laggis: You are saying that this Class II product, that the surplus that is already present in the Midwest is going to flood the eastern markets to get rid of it?

Mr. Douma: Without the purchase program in place, it would.

Mr. Laggis: I am not an expert in that business and I am not going to—

Ms. Thomas: I am not sure that as long as the milk is tight that that's really going to be true. With the RCMA we are going to be above support price levels and we will be able to get from the marketplace the price that, to the farmer the price that it is worth within the northeast.

Mr. Douma: On your fluid products you are absolutely right. But to get that price premium, you have to serve the fluid

market. If you drop the support price and that tightens supplies in the northeast, that Class II market is going to be supplied by another region.

Mr. Young: I don't think any of us are really calling for abolishment of the support program anyway but to find a method to make that support program work so those that are actually using it are actually selling to the government. They are bearing more of the cost.

Ms. Thomas: True assessment of price cuts or whatever the system is that whatever kind of a policy is developed, that those that use that support price and need to sell to CCC should be the ones primarily paying the price for it. That cost has been spread out over all dairy farmers and we are paying money to the Federal Government to buy the extra that comes from other parts of the country.

Mr. Douma: If the support program is drastically reduced in those regions so that you have a surplus in the selling to the rest of the Nation, probably production would go out in the southeast or in the northeast. Then there would be a market for the product from those surplus areas.

Ms. Thomas: So you are making the assumption that there won't be a strong, that the Midwest would hold out longer under a lower support price than the northeast, is that what I am hearing you say?

Mr. Douma: It would appear, that if you continue to handle your fluid needs and not your Class II, then that creates a new market for a product which is today going to CCC and that's how we all tie together. And when you say make the program in one region because today they have a surplus, that they should be totally responsible for the surplus, that isn't how it works.

Ms. Thomas: Right, it doesn't work that way right now.

Mr. Douma: Nor should it.

Ms. Thomas: Nor should it.

Mr. Rutherford: Irvin Elkin?

Mr. Elkin: Well, this national versus regional issue keeps coming up and I think as good businessmen we are going to try to do the best job we can predicting our markets and our sales. To show how it works on the national organization, you are kind of squeezing the balloon. You push it one way and it pops up someplace else. Wisconsin, where I come from, has been getting a lot of publicity on the fact that our consumption and our sales are up dramatically compared with the rest of the Nation. The rest of the Nation is up 10 percent, Wisconsin is up 10 percent.

Mr. Rutherford: Total milk size?

Mr. Elkin: Total milk size. And Wisconsin is using a lot of money in promoting Wisconsin cheese, so they have sold more than the national average. But I guarantee if you tracked that through, somebody else sold less. Wisconsin is a little bit irritated by the finger pointing. They say, "Okay, we will sell in the market." If you want to track it through you will find this happening, part of it because of the strong promotion. This made us look a lot better. But it didn't really, it popped up someplace else. So I agree with what some-

body said earlier, we are one pool of milk or one Nation and I think we have to look at it that way. That's my bias.

Mr. Rutherford: Since this is the last hearing on the schedule, we have heard about regionalism in each region, and maybe we are taking a little frustration out on you and that's not fair.

Ms. Thomas: I think our problem here is that we don't have a problem here and I think every region has to advocate for what is best for themselves and our dairy farmers.

Mr. Rutherford: I think what I hear everybody saying is we have to treat the problem correctively. We are all going to be influenced by it. You said you do not favor eliminating the support program. Are you in favor of maintaining it?

Ms. Thomas: No.

Mr. Rutherford: But we need to find a vehicle within that framework that takes care of our overproduction problem and yet does not disrupt our regional marketing structure?

Ms. Thomas: Right.

Mr. Mertens: Evidently you have a problem here. There is a shortage, and yet you are not getting the price for your milk. Your price should be going up if there is a shortage of milk. If there is a shortage of apples or potatoes, the price goes up. I think what is happening is that over the last 5 or 6 years, we have been so tuned to the support price being the price, that it is no longer a lower price as it was intended to be. It's up to the local processing organization, too. If they are short of milk, they are going to have to pay for it. Then you will make more milk.

Ms. Thomas: Right, which is exactly what RCMA is doing and our fluid price will rise 7 cents in September because of that exact situation that it is tight so the program is—

Mr. Mertens: So the program is working to some extent anyway?

Mr. Rutherford: Charlie Williams?

Mr. Williams: Yes, your price would drop if the RCMA, if you don't have farmers within the group who don't belong to the co-ops and don't agree to set it for less?

Ms. Thomas: That's right.

Mr. Williams: That is the problem as I understand it, not so much in the New England area. The problem is in the southern areas of the northeast, in New York, parts of southern New York, New Jersey, and Pennsylvania.

Mr. Rutherford: Yes, because as was stated earlier, 25 percent of the fluid needs in New England come from New York. That is actually all independent milk. I thank you very much. It was excellent testimony and we do appreciate it. Delbert Leete will be the next witness.

Mr. Leete: Good morning. I want to welcome you all to New England. We don't have as many farmers as Wisconsin and some of the other states, but they are pretty important. First of all, I have been to several meetings and a lot of people have heard the same story so I will just make a few comments on what I think and give you some time. I believe we need a production management program in the country. Another man mentioned this, I would like to see a national

board of farmers. I know we have USDA and now we got a milk board, but I think a board of farmers instead of the USDA might be able to put a handle on production and prices and some of the problems we have run into. And I would like to see a long-term program, 30, 40, 50 years and rewrite it every 5 or 10 years according to population and production, and anything connected with agriculture could be brought up before that board. It's pretty hard to control prices because we can move materials across the country pretty reasonably. The family farms we would speak about, I have a farm that takes four people to work on it. We sold the cows this spring because I didn't believe in the termination, to build a herd, of that way of doing it. I haven't raised a better calf for 3 years. I thought that was one way of cutting production. We kind of did it on our own program so now like some other farmers, we are sitting on an empty farm that we would like to move, to kind of retire. We produced milk for near 50 years, started pretty young. But the RCMA Program, I will just kind of bounce along different programs. RCMA Program is one way of getting farmers to work together and the handlers. We do need all the handlers and Class I, Class II market we can get. If they get too short of milk and a cheese factory goes out of business, and hurts everybody. I think the northeast hasn't felt the effects of the low prices like the western farmers have. If we don't get the price of grain up, they can produce milk as cheap as we can or cheaper. I have been to several meetings that represented a lot of people and the consumers are willing to pay more for food, natural foods and quality foods and that's why we should be looking for a price and not from the government and subsidies. If we do get short on our supply of milk, our inventory now is getting lower, cheese, butter and powdered milk. I would like to see the government buy their products on the open market like the defense system does. Let it out for bids or pay right on the wholesale market. As we get rid of family farms, we lose a type of person that has been the backbone of our country. They know how to work, they know how to farm. It has to be born and bred in them. There are very few people that will run a dairy farm and put up with it their whole lifetime. My wife and I never worked off the farm. We raised four children and paid for it all ourselves. If we don't control imports, according to the quotas we have, they will use the technology and the hormones and the different programs. If we did ban them in this country, I don't know if we could import the product that had them in them but they have a lot of 15-20-acre farms in Europe that still produce a lot of food. They have the technology. I think we have to learn from some of the old countries because this is still a new country, a couple of hundred years old where those countries have gone through what we are going through. They have had famines, they have had surpluses. For instance, I read in Switzerland, they subsidize their farmers some way so that they can have a supply of food in time of war or disaster. I would like to see stricter inspections on imported cheeses and meats and all imported foods in the processing plants where they were made. I will close with that.

Mr. Rutherford: Okay. Thank you, Delbert. Are there any questions or comments? Irvin Elkin?

Mr. Elkin: This is not a totally new idea but it's new to the hearings we have had. You suggest a national board made of dairy farmers?

Mr. Leete: All farmers.

Mr. Elkin: All of agriculture?

Mr. Leete: It would have to be that way because milk gets high in either, a lot of farms that could go into dairying pretty quick in the Midwest.

Mr. Elkin: How would these people be seated? Would they be appointed?

Mr. Leete: They would have to be elected some way.

Mr. Rutherford: Are there any further questions?

Mr. Leete: I would like to add one more comment. When we are culling back on raising calves, in production in a way all over, farmers voluntarily think that way and I think they are connected together some but we have a big import from our neighbors to the north with grain, meat, dairy, not milk, but fresh animals. They are on a quota so if they have extra heifers and the quota is built, they can ship them down here. That's all I have.

Mr. Rutherford: Fred Douma?

Mr. Douma: You mentioned earlier, Delbert, that you were voluntarily not raising your heifers, but were selling them for slaughter?

Mr. Leete: Yes, heifer cows.

Mr. Douma: Were they for slaughter?

Mr. Leete: They had to kill them because I threatened to trim the tests off if they didn't so they couldn't be milked.

Mr. Douma: You probably should have.

Mr. Leete: Well, I am pretty sure they were killed.

Mr. Rutherford: No further comments. Delbert, thank you very much for your comments. Jack Rainville, Doug Clark, Ron Morrisette and Yves Brasseur, would you all come forward.

Mr. Clark: My name is Doug Clark. Mr. Chairman, members of the Committee, I see our own Mr. Foster from Vermont is missing but I particularly wanted to welcome him since I am from Vermont but he's probably having a sandwich that I am going to have shortly. An interesting note that I would like to start out with is some of you had a chance to read *Hoard's Dairyman*. I just glanced at it before I came and in one of the articles, big headlines, profits improve slightly in northeast dairy farms. Well, I had to read a little bit more. And I really hate to take things out of context but I can't tell you it all, but there was a graph underneath that showed 1985, the average income of Northeastern dairy farmers was a minus \$5,483. However, it's improved so much that in 1986, it was only a minus \$3,541, how could you call that improved profits? Beyond me. In May of 1983, my milk, the pay that I received from my milk, Order One, Zone 25, was \$12.90. That was on about 800,000 pounds that I have produced. The same milk in May of 1987, the same order, the same zone, I received \$11.30 for my milk and I am not different than the rest of the farmers around. I went from 800,000 pounds of milk to 1.3 million, I had to survive. I think my

point here today, gentlemen, is that we must focus on a long-term solution to provide stability to dairy farmers. We must start talking about more for less and quit talking about less for more. We must talk about a supply management system with a price for our product. And this price should be obtained from the marketplace. History will show us if we look back at the lower the prices have been, the more milk we usually wind up with and conversely or not exactly conversely but the higher the price we got, we thought well, boy here comes the good times, let's produce some more milk so it just backfired on us and kept flooding the market. And I think the point was made a little bit earlier, originally the support price was supposed to be a low price but it seems to have turned out to be a ceiling price also. We are not asking for a guaranteed profit. I guess what we are asking for is not a guaranteed loss for our product. Just last week, Secretary of Agriculture Lyng was in Burlington and he gave testimony about the Agriculture Committee and in his opening statement, he made the comment that nationally, income among farmers was up. And you know, this didn't click immediately until somebody finally asked him to clarify that and he says well, there has been a record \$16 billion in subsidy payments. This income didn't come from the marketplace, it was from taxpayers. To me, the U.S. agricultural policy is an insult to all us hard working farmers but then what can we expect when a legislative bill must go through first 435 members of the House and 100 Senators. I mean, it's totally impossible to expect this. This is what makes your job as Commissioners all the more important to us. Any business in the United States as far as I am concerned should be able to support itself on its own business without a subsidy. Looking back a little bit, we find that the Diversion Program could have worked, it did work, and it could have worked much better, but because of some political deals, it could not be extended. The Whole Herd Buyout, another short-term fix, I believe in the end will not work. Although we are showing now that cow numbers are down 10 percent, we are looking at production down only 3 percent and a lot of barns are full of heifers ready to go. RCMA without a supply management system in place can only have limited success for the minute we get supply back up in line with demand, handlers are going to break this. So the problem as I see it is cash flow. And the solution has to be in the form of a supply management. We are talking about food, shelter, and clothing here. We deserve better than what we are getting right now so before we lose our sense of humor completely, we must focus on a long-term solution which will provide a profit and stability. We know where we are but we don't know where we are going. For the first time in my memory at least, there is a grass roots attempt to bring order and stability to the agricultural industry and that is in the form of Save the Family Farm Act. Rural Vermont has been instrumental in a lot of farm-side chats with the farmers to get interest and understanding in this bill. There is something in this bill for all, all farmers, including the commodities, not just dairying.

And to me a version of this bill and not necessarily seeing it has to be nailed down as it's written right now, let's work on it particularly from the grass roots level and get it right from the farmer. But a version of this bill is necessary to provide a price for a product which is obtained from the market, based on the cost of production and parity. A management of sup-

ply, we must talk about a management of the supply by producing only for the market and world food programs. This bill as I understand it would also increase exports through—and I think the key word is—fair trade. It also would cut government costs. And most importantly perhaps is it would increase farm income which spins off in many different directions as you well know, and I think one of the important directions that this would spin off is that it would help heal the wounds of the farm credit system. How can we pay our debts if we are not going to be paid for our product? I feel that this Family Farm Act if passed should be administered like the gentleman said earlier, by a panel of farmers. Who knows their job better than the farmers? There has been some talk about regionalizing. I think that is something that we need to talk about, but I am going to go away stomping mad if we can't bring it off. I am not going to pit one farmer against another farmer. We are all in the same business. Milk comes only in one flavor. So it is my hope, gentlemen, that you will, it is my hope, it is the hope of many farmers here, it is the hope of many generations to come that you Commissioners will carry that message back to the administration and at long last, we can set a true course. Thank you for coming.

Mr. Rutherford: Thank you, Don. Who wants to go next?

Mr. Brasseur: My name is Yves Brasseur, with my wife, we come from Newport Center, Vermont. We are part of a seven-family incorporated dairy farm. Knowing that this great country of ours was created by family farmers, I as one would like to see family farming continue. Family farming is a way of life and it is one of the last true signs of democratic freedom that this Nation has to offer. In order for family farming to continue, the first thing we need is parity price in our products on the marketplace. Subsidies or the government have always kept farmers on edge and will never be a true solution helping family farmers in business. A follower of the Save the Family Farm Act, I admire all the farmers that had the guts to put something together that will be the true solution for dairy farmers. There are probably a few more changes in the amendments that have to be made to the Act like regionalization, control on production, imports and so on. But I am sure that once the act is put into law, that the family farm will flourish. If the family farm flourishes, everyone will flourish. As an independent director of our local 11-state RCMA, I admire the accomplishments of the people that brought so many farmers of different thinking together. The RCMA has been able to set a minimum price on the Class One milk of 14.45, 3.5 left. It is not perfect but it is a start in the right direction. I would like to see the same thing happen to the Class II milk production.

One last comment—why not have family farmers have a say in setting price on their products and controlling farmers' production? Thank you.

Mr. Rutherford: Yves Brasseur, thank you.

Mr. Rainville: I'm Jacques Rainville from Highgate Center, Vermont. I have 40 milking Holstein cows in my farm and also 30 heifers I'm raising and I'm of French origin from Canada. My ancestors came from Canada. I bought a farm 2 years ago and I anticipated the milk to go down somewhat, 50 cents, and I figured that in my budget when I

bought my farm. But it has gone down much more than 50 cents and it's incredible to try to make a living off a farm when you're losing money, but I've got a great concern. I've got a farm that's valuable that I was faced with development pressures and I have some land on my farm that's beautiful alfalfa land. I grow three crops of alfalfa on it and a guy gave me a price on that land. I could retire my debt off my whole farm and you know, I'm a grass roots farmer born on my father's farm. I always worked for my father. I bought my own. It was a neighbor's farm but it is adjacent to my father's and it was next to the village where we lived. The land is sandy land and we're next to Montreal. The contractor wanted to sell the sand off my piece of land to Montreal to be used for cement. Most of the sand that goes into cement goes to Montreal. It comes from our town. He offered me \$12,000 per acre for the land. Until we don't get prices according to the land, we're losing land at an incredible rate in this country. This bothers me. This troubles me. Until we get our prices together, the farmer gets a return on his profit, we're going to have to deal with this and we're going to have to deal with it quick because I can retire my debt on 20 acres of land and I'm not going to do it because I'm a grass roots farmer. I believe in staying a farmer as long as I can. When I'm forced, when I can't make the payments on a farm I'm going to sell it. That's bottom line. What I'm saying is we need a return cost of production. All I care about is the cost of production. I don't care if the land gets up valley. I want to stay in the land and this is what it takes to keep the farm and my way to save the Family Farm Act. It's quota. I want to milk 40 cows and make a living out of it and a supply management program, a type of parity is my solution and the only solution. I oppose a quota myself. If I could get \$16 milk without a quota I'd be much happier but I know what happens once you get a price of milk \$16, farmers come out of the city, comes out of the woodwork, everybody gets into farming. I think a supply management type of parity if there's going to be a cost, whatever you produce, you're going to get a price for it and the return, a fair profit on your product. Second is labor. You know, we don't get a cost production. We can't afford to hire help. We need help badly. The only help you can get when the most you can pay is \$3 is you get kids. The farm accidents, we're the highest rate of insurance, farmers are the worst rate of insurance, of hazards. You go to buy workmen's comp, they're the highest on books because you hire cheap labor, they are not responsible help. That's the reason why, you don't pay them. A man that you can pay and keep you cannot afford him.

That's one of my concerns. And another great concern I had very deeply, I was listening to the contra hearings on T.V. I couldn't help to listen. Oliver North came over and said the Russians are going to get us from the south, from the east, from everywhere. You know, that really bothered me because I thought he was saying the right thing, but I sat there and thought and listened, I see the Russian leader now is giving incentives to their farmers to produce more because for years that was their problem, and we're doing just the opposite in this country and I think the Russians are going to get us without firing a bullet if we let the farmers go. This is the way they're going to get us and I'm serious about that because every country that has turmoil in it is agriculture. You look at the Philippines, their one ownership of land, a

few people own large amounts of land and control the people, then the people don't have any freedom. They're not happy in their country. I believe in the United States the people are happy in this country. Everybody will take their guns out and go fight the Russians if they're happy in this country. I believe we have to start with our agriculture. Agriculture is the base of this country and that's why we've been so prosperous for years in this country and that's why we have to maintain that. So this is one big issue I got out of the contra hearings. I'm glad, I'm really glad that I got this part and I wanted to pass it on to you guys. And another thing, a supply management, I oppose supply management if I could live without it, get price without it, but I see I'm not going to—I presented to my senator and my congressman and I said what's the chance of passing this to the administration. Well, the administration says we oppose it, dead set oppose supply management, and the question I bring is why? Why is the Administration that opposed to supply management? This is the question I'd like to get. If it's going to work and preserve agriculture in this country, let's go for it. I'll leave it at this time to somebody else. If I think of something else I'll mention it.

Mr. Rutherford: Ron.

Mr. Morrisette: I'm Ron Morrisette and I'm a dairy farmer in East Randolph, Vermont, with 45 Holstein cows. I'd like to welcome you all to Vermont. The number one issue facing dairy farmers in Vermont and elsewhere is price. Dairy farmers must receive a fair and stable price for the products they produce. Establishing and maintaining a fair farm price must be the top priority of policymakers and farmers. Rather than push government out of agriculture we ask that government farm policies regain their original purpose and that government play a positive rather than its current negative role in farm policy, that is, maintaining fair farm prices and helping farmers balance production with market demand. As it has in the past, the government should once again establish a fair price for farm products using the cost of production to calculate cost figures for farm products. Once a fair price is established, an effective supply management program must be instituted to maintain farm prices and to balance supply and demand. At this time the dairy section of the Family Farm Act, Senate Bill 658, introduced in the U.S. Congress represents the best means of insuring both fair prices and effective supply management. The Family Farm Act contains the major elements of a fair and workable farm program, fair and stable prices, effective supply management, and major tax savings through the ending of most farm subsidies—because the bill allows farmers to vote in a referendum on the program before it is enacted and every 4 years after the program would only be instituted if a majority of producers favor it. A recent study of the Family Farm Act on northeast dairy farmers conducted by farmers in Vermont and New York with the assistance of the Texas Department of Agriculture using model farm budgets developed by Cornell University showed that this program would significantly increase the income and profits of the great majority of northeast dairy producers. This included even small farmers who purchased all their feed off the farm. We understand very well that the northeast is a milk deficit region and that milk supply conditions vary from region to region across the

country. Because of that, we are working with farmers throughout the Nation to improve the Family Farm Act program so that it better reflects these regional differences. We offer the following programs: A regionalized two-tier or base excess program. Each farmer would be assigned a production base equal to their previous year's production. All producers would cut production in order to bring national milk production in line with demand. However, production cutbacks would be targeted according to production levels. Smaller producers would cut production the smallest percentage and so on. Producers would receive a parity price for milk produced within their production base. Surplus or second tier milk produced above the farmer's base would receive a much lower price. However, this second tier price or base excess price would be allowed to fluctuate. It would rise and fall regionally according to a formula designed to consider at least the following factors: The demand for milk in that region, the need to maintain an M and W price at parity, the need to recognize that a certain amount of milk equal to current amounts must be permitted to flow between regions. In this manner, farmers in milk deficit regions where the demand for milk is strong would be able to produce a greater amount of milk above their base without a penalty. As long as the milk was needed in that region, they would receive a fair return for it although this over-based production would still bring a price below the parity price or base price. As the region's milk supply reached surplus conditions, the excess base price would fall accordingly. Should the CCC need to make purchases, the CCC price would fall to a very low level. This would guarantee the CCC the lowest possible price and seriously discourage overproduction of milk that is not needed. This type of program could be attained by amending the dairy provisions of the current Family Farm Act dairy section. The key difference is allowing the base excess price to flow according to regional demand. Because the Family Farm Act already has broad support among farmers as well as consumer, church, and labor groups, it is the best vehicle currently available for this type of legislation. While we are concerned with regional differences, we are also aware that the current regional problems are more the results of environmental conditions and government policy than any attempt by family farmers in one region to hurt family farmers in another region. California farmers, for example, may be producing surplus milk but they are not breaking any law in doing so. In fact, they are encouraged to do so by current policies. It is our intent to develop a dairy program that recognizes regional needs but is fair to all producers from Vermont to California. A regionalized two-tier pricing program based upon the Family Farm Act dairy program as outlined here would achieve our goal of fair farm prices, effective supply management, and a healthy family farm system in the northeast and throughout the Nation. Thank you.

Mr. Rutherford: Thank you, Ron. Bob McSparran, first question.

Mr. McSparran: Ron, I think I understood you to mention that small farms would cut the production the least.

Mr. Morrisette: Right.

Mr. McSparran: Can you elaborate on that? There's been considerable discussion in targeting the cutbacks according

to the size of the farm, in other words, the smaller farmers would take a smaller percentage cutback. Where is the breaking point on the small farm?

Mr. Morrisette: I don't know if that's been finalized.

Mr. Rainville: It wouldn't be fair to a guy who had 20 cows to cut him back the same percentage the guy that had 3,000 cows. That's what we're trying to pinpoint down. I don't know if that is final in the bill yet but we're working on that.

Mr. Rutherford: Are there more questions or comments?
Jim Holte.

Mr. Holte: How do you really justify that with a family farmer who operates a herd with, say, 150 cows with himself and two sons as opposed to another family farm that has 30 cows? Aren't they both family farmers and don't they both have the same rights?

Mr. Rainville: You're saying legal.

Mr. Holte: Just ethical questions.

Mr. Rainville: We're going to have to come out with a program that farmers have to agree entirely together. That's my ability.

Mr. Holte: I don't understand what you mean.

Mr. Rainville: A program where farmers from the whole Nation agree together, you know, to a certain percentage. You're trying to say that a farmer with 200 cows and a farmer with 30 cows, the one with 30 cows would cut less. Is this what you're trying to get at?

Mr. Holte: I'm curious as to why they should not cut the same percentage.

Mr. Rainville: This rule hasn't been set yet. We could work as a committee together and get it to set where maybe at 150 cows we won't cut, you know.

Mr. Clark: Boils down to the Robin Hood effect, take from the rich and give to the poor. That's basically it.

Mr. Holte: I probably milked fewer cows than you do, but it seems to me that to milk a 100 cows or 200 cows doesn't necessarily mean you're making a large profit. The size of the herd doesn't necessarily have any relationship to the profit.

Mr. Rainville: We feel by doing that you're going to maintain more farmers by not having large conglomerate farmers. Maybe you're right that the big farmer is not making any more money than the little farmer, but we're saying we want to preserve the interests of the small farm. I don't know if that's your answer.

Mr. Holte: That's what I was wondering.

Mr. Rainville: Our main goal is to preserve more farmers and more farmers than less farmers making a living.

Mr. Clark: By the fact that you will have a higher price for your milk, you get a little more play if you're larger than the small one has. Your pay is a little bit more.

Mr. Rutherford: Fred Douma.

Mr. Douma: If the larger dairy farmer would take a larger cutback and this is based upon a referendum of dairy farmers, then shouldn't that referendum or vote be then based upon volume?

Mr. Rainville: We have to keep in our mind that if we come up with a program for the whole United States as a Nation, as a whole, we could have a program that we pass through Congress and we know who's bigger or not bigger. You know what I mean, the California state has a hell of a lot more representatives than the State of Vermont which only has one. We're saying we're going to have to have a program that the California farmers are going to have to agree to, you know what I mean, but it's got to be a fair program. That's what I'm looking for, a fair program.

Mr. Clark: One man, one vote. Is that fair?

Mr. Douma: In my opinion with the potential of a larger farmer taking a larger cut, no, one man, one vote is not fair. Onto the other question, I'm not trying to degrade anyone, but under today's technology is a 40-cow dairy operation a legitimate family business and should it be?

Mr. Rainville: Yes.

Mr. Douma: Should it be?

Mr. Rainville: There's enough work for one man on a 40-cow farm. Believe me or not. If one man can do all the work on a 40-cow farm and do it right, he's got a good day's work and I'll guarantee you. So that means that man should get a salary of a week's pay. Because if a man doesn't—I mean if there's not enough work for a man on a 40-cow farm, I'd like to know what kind of man he is.

Mr. Douma: To put this in perspective, we all are different and that's not the real problem we have here. The whole Nation's different. My father started milking cows in 1935 in southern California. He milked cows all his life and was never in the dairy business. I was fortunate. He retired in 1979. In 1935 he milked 30 cows by hand. When he retired in 1979, he was milking 300 cows twice a day.

Mr. Rainville: All alone?

Mr. Douma: Alone.

Mr. Rainville: No hired help?

Mr. Douma: He was the hired help. He was the hired help from 1935 until 1979. So technology brought him from 30 to 300.

Mr. Rainville: I agree.

Mr. Clark: And purchased all his feed too?

Mr. Douma: He wasn't in business. That's just what I'm saying.

Mr. Rainville: In the northeast we produce all our feed and I'm calling a 35-cow farm or a 40-cow farm is producing all your forage, your rough crops like your silage and stuff, a man does that on his farm. That's included, that type of work. Fencing, doing whatever.

Mr. Rutherford: Is it 40 cows or is it 150 cows? There again is a 40- or 50- or 60-cow dairyman growing all his own roughage and farming all his own land versus the one who maybe milks 400 or 500 and buys everything. All he is is a

milker. One of the things that we have to do, is ask which dairyman is going to take advantage of new technology first.

Mr. Rainville: It's all right, but have it work for you as a farmer. It's going to bring you more profit as you sell. That's my opinion of technology. Now it's not working to our advantage. The more we put on the less we get.

Mr. Clark: We've heard about cost of production, you know, and no one has asked how to determine cost production. My answer to that would be that I guess every state has a land-grant college; is that correct?

Mr. Rutherford: I don't believe so.

Mr. Clark: Not correct?

Mr. Rutherford: But you mean there's enough information out there.

Mr. Clark: Sure. That figure could be determined at the land-grant college. We take figures from the University of Vermont and their figures are going to be \$20 a hundred, but they've got help tripping all over each other there.

Mr. Rutherford: I'm not going to get into that.

Mr. Rainville: I live on the Canadian border, 6 miles away from the Canadian border, and all my cousins are in Canada. They all own dairy farms and 2 weeks ago one of my cousins came down and had his paycheck with him. He milked 54 cows, Holstein cows on his farm over there, and he had a milk check of \$8,600 for 15 days. Granted, there's 20 percent of the money exchange rate. Their program is not perfect. I know it's far from perfect. But what I'm saying is take a look at their program and make a program better, but it's pretty good. The average dairy farmer in Canada is doing good.

Mr. Rutherford: Would you like to farm under that program yourself?

Mr. Rainville: Yes, sir. I'll bring up another thing, he's got rules and regulations but he gets paid for his, but he can't make—

Mr. Rutherford: He gets paid for the bother of it.

Mr. Rainville: Right. What I'm saying, he gets a decent return on his money.

Mr. Rutherford: I'm going to have two more. Fred Williams.

Mr. Williams: I come from Florida. Our average dairy size is about 600 cows. They would have a much different opinion about family farms than what you people have.

Mr. Rainville: We agree that there's different size. We're not trying to cut any farm by—

Mr. Williams: It's your percentage of cut that you're talking about.

Mr. Rainville: I find it hard to regionalize, say, the Family Farm Program but I believe the family farm will regionalize itself for the simple reason that you've got a million and a half pounds limit cutoff, that's all a farm can make, that's it. Period. You can make more, per family. You can make more, you can make over a million and a half pounds, but what—

ever you make over a million and a half pounds you're going to make it for \$4. You still can make it. There will be no penalties, no fine, or nothing.

Mr. Morrisette: That's not right either.

Mr. Rainville: That's what I think the farm—

Mr. Morrisette: That's not the way I understand it is, that it just wouldn't allow any increase over a million and a half pounds. You'd still get the same price if you had that base.

Mr. Clark: Deficit area where there's a need for more milk, this farm that's already making a million and a half pounds is not going to get any more. But this farm over here at 600,000 pounds is going to get it. It's going to regionalize itself.

Mr. Rainville: Because in the northeast, there's a demand for milk and the farmers over in California or Wisconsin that are already over a million and a half pounds there's no basing over there. The base is going to come back to the northeast here.

Mr. Rutherford: The perception that the dairy farmer has of our work is going to be what counts and then we've got to sell it to the legislature. Under that program in the southeast, they're short of milk now. They are another 90 percent Class I utilization. And you've got the people in the north who are selling cheese like crazy and they come up from the south and say, "We need more milk from Class I," and the people in the northeast or the upper Midwest say, "Hey, we aren't getting it. We're going to keep our plants full." Yet we're going through a cutback or a cap. Where's this milk going to come from?

Mr. Clark: California.

Mr. Rutherford: They found a place for you.

Mr. Douma: The southeast has a 600-cow average and I would assume logically that every one of the producers in the southeast is over that million and a half cap. So they cannot increase because they're all over that million and a half cap.

Mr. Rainville: It will give incentive to new farmers to come in. There will be incentive for new farmers which is going to keep them under a million and a half.

Mr. Douma: With the cost of production in the southeast, give me a million and a half pounds of volume on an annual basis and I won't starve, nor will anyone else.

Mr. Williams: It's not economical.

Mr. Douma: Not economical.

Mr. Rainville: Not at \$16 or \$17.

Mr. Douma: No way.

Mr. Rainville: Under a million and a half?

Mr. Williams: No.

Mr. Douma: Nor will it be in California.

Mr. Rutherford: I don't want to prolong it.

Mr. Rainville: We're learning.

Mr. Rutherford: We all are and that's why I'm letting it go longer than we do. Because as dairymen it's important that we talk about it. Somebody in the back may have something they could add.

Ms. Patenaude: I want to clarify one thing—

Mr. Rutherford: Please identify yourself for the record.

Ms. Patenaude: Mercedes Patenaude, Newport Center dairy farmer. If you've got a base of 8 million or whatever your base is you will not lose that base no matter how high you are if you're already farming. And in each region the ASCS office will tell you how much you have to do.

Mr. Rainville: What we're saying, the big farmers that already got a base, they're going to keep it. They're going to keep it. We're saying the only time they would lose it is if they sold out to—let's say, the land goes for developing, then the quota goes back to the ASCS office, gets distributed to whoever needs quota, you know, whoever wants to get started or wants to get started as a young farmer at no cost. Another thing I would like to add, as in Canada, being close to the Canadian border, the biggest downfall of the Canadian quota is of value on the quota. That's where my cousins, all my relatives in Canada tell us that's downfall. But that was brought about by the farmers. That was—

Mr. Rutherford: I bet not one of them is willing to donate it somewhere, are they?

Mr. Rainville: They're not willing to donate. What I'm saying is to save the family farm the value would stay on the land and where it would bring the value of your land comparable to a lot of the city land where if there's money to be made on a farm it's going to stay farming. Simple as that.

Mr. Rutherford: It's going to drive up the cost of getting into farming in the end because if that land has quota—

Mr. Rainville: There's going to be value in the land which it should be rather than on paper. I look at it this way.

Mr. Rutherford: I appreciate that you've been very willing to go back and forth and I think a lot has come out of it so we really appreciate your testimony.

Mr. Gould: I, too, again probably will be repetitious as much as you've heard through the day and this being your last meeting, but I, too, would like to welcome you to Vermont and I sincerely look forward to seeing some varied successes come through after your report is given to Congress. I think our situation is dollars and cents. I think that's just about what it was down to right here or whether you're here or in California. I think one of the things that when we talk about regionalization we have a little, there's varied differences been given, but not too much given as far as philosophical and I think that's the main reason that we have the differences when you talk about a 600-cow dairy in Florida or 40-cow farm here in Vermont. The philosophical thoughts of those people involved are just completely different and I'm not sure that that is something you'll ever be able to put on a national scale and there's got to be some real strong, a lot of hard work, a lot of things down in that area to make sure that comes about. I guess I'll back up a minute and say that we ourselves have a registered Holstein operation. We milk 75 cows. We're probably going to be milking 90 shortly

and we've been on our farm for four generations. Our farm includes now what used to be five farms so you can see the difference as far as the size goes. One of the things that I think that happens when you have a strong dairy economy that affected our operation is it has affected our registered Holstein operation as well. When you have a good strong dairy economy everybody's making money, it's good for sales, good for everything in business. Good for machinery dealers, feed dealers, everybody's happy. When it slows down then you're not in that situation. One of the things that I've always been a real advocate of is promotion. I think that we've shown that we can do some real good things with promotion. We've had some real successes, but I think we've just really touched the tip of the iceberg. I think when people talk about overproduction I think it's underconsumption. I think we've still got a lot of room left to do a lot of things. I myself instead of 10 or 15 cents or whatever, I think 25 or 30 would be even better. I think we need to take some more lessons from our biggest competitors, the beer and soda industry. One of the things along that line that has always irked me a little bit, too, is promotion all comes from the producers. None of it comes from the consumers. If you look at a product such as Coke you're only getting a few cents worth of product and 50 cents' worth of administration and promotion. Milk doesn't do that. We always come from the other end. I've always been troubled with that point at it that way. I think consumers are ready to pay more. I think one of the things, if you get into that, that agriculture and dairy included has been used. Congress and the administration and our country have made use of agriculture. We've got a national problem that is used on an international basis. We're used as far as trading and deals with other countries.

Wouldn't it have been great if Ollie North had been guilty of selling how many car loads of milk products or powder or whatever to the contras. We would have had a hell of a good deal. But I think that that's one of the things that we need. I think our administration now is speaking that we're going to have no more subsidies to the farmers. I'm not so sure but maybe we're subsidizing consumers. We're giving them a pretty cheap product. They spend less, a lower percentage of their income for milk and food than any other country in the world, and it's maintained that way. And I'm sure our congressmen like that. We're 3 percent of the people producing food for the other 97 percent. They're not going to get very far with our 3 percent of the votes so they've got to start dealing with something else and I think that's a fact that comes to reality. One of the other things that I think that we really need to have a strong look at is our Farm Credit System. Right now with the bill that was just introduced recently to combine everything, I know that regionalization, this Board has been barraged with over the last fall but as far as Farm Credit I'm not sure that credit personnel can look at a farm in the east coast or in Vermont, a small loan comparatively to the Midwest or a Far West loan and look at it equally. I just think that there are many variations, that there's just too big a variety in there that you can't really deal with that and I really think we have a strong system here, Farm Credit System in New England, and I think it's been done with good management. And I really have a problem paying for everybody else's mistakes. And I know that mistakes are made but I just really have a problem

paying for them. So I'd like to see that when you folks go back and write your report and get it to Congress and hope that they interpret it the same way you read it, that after it's summarized and resummarized and sent to the Senators and Congressmen that it doesn't lose all its teeth. I think that, I guess I'd have more confidence maybe right now that they've at least gone ahead and formed a group of farmers to listen to farmers, to report to them, because I certainly don't have a lot of faith in talking to my Congressmen anymore. Thank you.

Mr. Rutherford: Thank you. Who wants to go next?

Mr. Blodgett: Neither of us. My name is Russell Blodgett and I have a dairy farm in Orleans, Vermont, which is about 60 miles north of here. We milk about 70 cows. Until the 1st of January this year I was the hired man and I bought the place and now my dad's the hired man. I don't come here to talk before this committee as a pessimist. We work hard on our farm and we've done pretty well. The present policy that we're working under does not encourage the development of many new farms in our area but it hasn't been disastrous to ours yet. For 15 years we have produced milk at about the same level year after year. But we can't do that anymore. We're going to have to join the rest of the dairy farmers in the country who are expanding their volume of production. We feel that we've worked our expense end of the operation down about as far as we can and it looks like the continuation in our place will come from making more milk. We haven't been happy paying for problems that we feel that we on our farm didn't create, but we understand that nobody owes us the right to be farmers and that we do have to operate in a tough world. But looking into the future I think we have to look at programs that will enhance the stability of agriculture everywhere, most particularly on our own farm because that's where our emphasis is. As we develop any kind of a program in the next few years to replace the policies that we're working under now, one of the main things we're going to have to work harder at is the promotion end of selling our dairy products. There's been some talk recently about increasing the 15 cents per hundredweight that we now have for promoting dairy products by putting a dime on that and making it 25 cents. The word that I hear is that it would sell another billion pounds of milk product. Twenty-five cents per hundredweight is about 2 percent of the \$12 average that we get for milk now so we're not talking in terms of a lot of dollars per farm. Not a lot of problem there.

Another problem, and Ed just mentioned it here, that we have to look at is we have to be sure that credit is always available to good dairy producers or to good farmers of any kind. I don't know how this can be done. I think that perhaps the government is going to have to be more concerned with guaranteeing loans. I think the FmHA is doing that more now. Instead of actually doling out the money in a lot of cases they're guaranteeing the loan if you pick it up in the private sector somewhere, but we're going to have to be sure that the government is willing to guarantee these loans if the private sector can't or won't do it on their own.

On handling the surplus, I guess you've all heard that we don't have one here. I'm not sure I believe that. I know that at our co-op, Cabot co-op, our skirts are clean now but they haven't always been. One of the directors told me that we

haven't sold anything to CCC since August of 1986. That's really not very long ago. But I do think that we have to look at the surplus problem and put it on the backs of those who are producing it, and I don't know how to do this, of course. I spend my time milking cows and thinking, but I don't know how to do things. But we need to have, I think, a program that looks at our total national production and our total national consumption and, of course, whatever we don't eat that we produce is a surplus. And each year maybe we have to look at the difference between that and figure it back to the production on each individual farm, not on a regional basis because we've kicked that around enough so we're pretty sure it won't work. But maybe on an individual farm it will work if we come up with some kind of a two-tiered price program, not something that is in force every year but that looks at each year as we go along. I don't know how to work out the logistics of something like that, but perhaps this Commission in its time of operation will be able to see a solution along those lines. There's no question that not all of us in the dairy business today are going to survive. Some of us are going to leave willingly and some of us aren't. But I would ask that, please, when you come to making policy recommendations to whomever you're going to report to that you not forget that we are, or at least I am, not looking forward to being a kept farmer by the government, nor are there many folks in this country who are interested in keeping me. Thank you.

Mr. Rutherford: Bruce, it's your turn.

Mr. Urle: I'm going to sound like a broken record pretty soon but I have a lot of the same concerns Ed and Russ have talked about. I did hesitate a little to define myself as a family farm due to the inconsistency of what a family farm really is but I, too, milk 45 to 50 cows with about the same number of young stock and most of the time we're able to operate with family labor. I purchased the farm about 10 years ago, and my dad does help me out, too, along with my wife, children, and my mother occasionally. My main concern today is about what my wife and I are going to be able to offer our children when they decide and if they decide they want to be part of the dairy industry at approximately the turn of the century. Will there be a place for this size of farm at that time or will larger farms have swallowed the smaller farms. Some of the things that I see that may offer that opportunity to my children are taking a look at the present support price or support program. I do think that the present farm bill has to run its course and we have to give it a fair chance. We've seen a cut over the last year through the efforts of the Promotion Board and some of the areas that I wish that the promotion, not the Promotion Board, but Congress and the Secretary of Agriculture would take a look at our imports that are presently causing our surplus to look almost an artificial height—the import of casein, the unfinished sweet chocolate and things like this that replace product that we produce or we are not producing. I think that really hurts dairymen all over the country. And I would hope that they would take a serious look at tariffs or whatever it took to help stem some of these problems. I pretty much echo what Ed and Russ have said about Farm Credit. I'm concerned about the ability to borrow money at a competitive rate either from Farm Credit or local banks and I feel that paying for the mistakes

of the Midwest really troubles me or not just the Midwest but any unhealthy bank troubles me. I would hope that the government could help straighten this problem out and assure us all an adequate supply of credit. I would strongly support any move towards more promotion. I think that this is our only salvation. It's the more product we can sell the better all farmers nationwide would be. And I guess at the danger of being too repetitious I would close for now. Thank you for being here.

Mr. Rutherford: Are there any questions or comments? Perhaps I could just ask one. Would you be in favor of some type of supply management? I know I heard you mention equally sharing the cost of an overproduction program. Just what are your feelings on supply management?

Mr. Blodgett: Well, since I brought it up I'll respond first. I'm not in favor of any kind of a set quota or supply management policy that limits the amount of milk that a farm can produce. Because we don't really know how many of us are going to produce milk and how many cows we're going to have. We don't know how fast the population is going to grow. We have projections and they tell us over 10 or 15 years what it's going to be. But we don't really know so we don't want to lock ourselves into anything. But when we do start having a big surplus problem we've got to have a mechanism in hand that we can put this to work that will either discourage production for a short-term basis or else make the cost of that surplus to the government or whoever handles it low enough so it doesn't become a big burden to taxpayers. But as far as a strict supply management, no, I'm not in favor of it at all.

Mr. Rutherford: Bruce or Ed, what are your thoughts?

Mr. Urie: My thoughts would be more on something in the line of a base support price type thing with the amount of use that you are contributing to CCC would be the amount of money that you would be maybe paying in, so any deficit area would have to pay no cost of the CCC while any area that was using it to a great extent would bear the cost.

Mr. Rutherford: Would you feel that way knowing that the so-called overproduction area would look at it economically and say, "Rather than me selling to the government dirt cheap or being assessed a high amount, what I would do is take and put that on a truck and send it to a market." It doesn't take a lot of pounds of cheese and butter or a load or two of milk to disrupt the market.

Mr. Urie: I guess I would rather see the price set low enough so perhaps that wouldn't happen. It would be more my thought to encourage promotion to encourage use, whether it be coming into one market or another instead of trying to get what you were talking about.

Mr. Gould: Well, I think one of the things that we're faced with, what we've done so far hasn't worked so we're going to have to revert back to probably what we should have done in the first place and I think that is where we're going to look. I'm not sure that I'm 100 percent in favor of it, but we all have to change our minds and our operations and the way we look at marketing and things and I think with the national milk problem that we have that it's something that I would say is inevitable. And I guess I would be the first to admit

that I'm not sure that I do not have any plan, but I think that in a region such as we are now and we are in a fairly balanced one as far as production and consumption goes, and I think that we could probably maintain that. We aren't in an area where you can expand dramatically. Geographically it just isn't feasible to do that. We have limited amounts of land. There's a lot of land that's being used for other than dairy that was dairy. It's development. And when you start looking at the size of the area that we're in compared to a lot of other areas of the country, you know there's just so much room that you can go and we're limited. But I think that it's one of those things that I think that we are going to be faced with. I think that it would be better probably for the national problem if we could do that and hopefully do it fair. It's not going to be fair probably for 100 percent but as long as we can get a better price for what we produce I don't think there would be too many people that would be against that type of thing. If you're talking about limited at the same price or not, then I think you will have a hard time for anyone to survive in that situation.

Mr. Rutherford: We'll take one more question.

Mr. Aycock: I'm hearing that maybe you wouldn't recommend a mandatory quota program, but that we need some sort of mechanism that we could trigger in case we have a surplus. We have had various proposals and one that we've heard is a target-priced efficiency payment program that is strictly voluntary. Are you familiar with that type of program?

Mr. Blodgett: I guess not for dairy. We have things like that for corn, I guess. I'm not sure.

Mr. Aycock: One such plan is called the Lake Shore Plan.

Mr. Blodgett: I'm not familiar with those plans, but personally I like the idea of voluntary programs. The whole herd buyout wasn't the worst thing that ever happened to us as far as I can tell. As I said earlier, because we hadn't been increasing our production over the year I wasn't crazy about having to help pay for it, but it isn't anything that hurt us real badly and I think in the long run, at least this year or next year, it is going to help us.

Mr. Rutherford: I appreciate your willingness to expand your presentation and help us out. Thank you very much for your testimony. I'm going to ask Harold Wright to come forward.

Mr. Wright: Before I start my testimony, just listening to the discussion, it reminds me of when they wrote the Constitution 200 years ago there was discussion amongst the big states versus small states and the 200-cow herd versus the 20-cow herd and we're hearing the same thing.

Mr. Rutherford: They still haven't solved it and have still survived.

Mr. Mertens: But after they came to a conclusion the next day they went out and hired an army.

Mr. Wright: Are you fellows prepared to hire an army?

Mr. Douma: On that same line, the Congressmen that created this Commission gave us the charge to come up with dairy policy that lasted as long as the Constitution.

Mr. Wright: Mr. Chairman and Commission Members, thank you for the opportunity to appear before you today. To begin

with, I would like to tell you a little about myself and my operation. My name is Harold Wright. I reside at Route 1, Box 35, White River Junction, Vermont, 05001. My two brothers and I own and manage a dairy farm located about 2 miles from here. The dairy farm has been in our family for 104 years, since 1883. On the farm, we milk approximately 60 Jersey cows with a rolling herd average of 14,500 pounds of milk, 700 pounds of fat, and 544 pounds of protein. We are independent producers and market our milk to Turner's Dairy in Salem, New Hampshire. In addition to the Federal order blend price, we also receive a protein premium for our milk. There are two areas in which I would like to address this Commission. The first concerns the effect of new technologies on the family farm. In reading the Commission's purpose, I see this is one of the areas you are to examine. In my lifetime, I have seen the adoption and almost total acceptance of many new technologies. Among these are milking machines, tractors, selling milk in paper cartons instead of glass, artificial insemination, bulk tanks, hybrid seed corn, and ration balancing, to name just a few. Many of the questions and comments dairymen have today about new technologies are almost identical to the questions and comments dairymen had 20, 30, and 40 years ago about those things I just mentioned. For example, being a registered Jersey breeder, I can remember vividly the comments made by many of my fellow registered Jersey breeders concerning AI. They said it would ruin the breed and the industry. Stop and think, where would the dairy industry be today without AI. I am not going to debate the merits of new technologies that are being proposed. I will leave that up to others. However, I will point out that in the past dairy farmers have had to adopt new technologies and practices in order to stay viable and they will need to do likewise in the future if they wish to remain viable. One of the keys, though, is to help dairy farmers, especially those on smaller farms like those we have here in Vermont, adopt these new technologies. Over the years, the Agriculture Extension Service has rendered a great service in helping dairy farmers in this regard. The Extension Service has taken the theory and converted it into practical knowledge. Then by working on a one-on-one basis with farmers, extension has helped them put new technologies into place. The end result has been farmers becoming more efficient, hopefully more profitable, and at the same time providing consumers with an abundance of food at a reasonable price. In my readings, I see that proposed funding for the Agriculture Extension Service is being reduced. This would be a mistake and a costly one to taxpayers as well as dairy farmers. I urge this Commission in its report to recommend that Congress maintain and possibly increase funding for the Agriculture Extension Service programs that work directly with farmers. I see this as one of the best ways to help dairy farmers cope with the changes brought about by new technologies.

The second subject I wish to address is the way milk is priced in the Federal Order System. It is ironic to me that with all of the changes that have taken place in the dairy industry, the industry is still pricing milk under a system that was established almost 50 years ago. All of us will agree that the dairy industry is different and has changed. Shouldn't the milk pricing system change as well? The current milk pricing system used by the Federal Order System

encourages production of volume with little or no regard for test. That type of system is no good for the consumers who purchase dairy products, the plants that process our milk, and we the dairymen who produce it. As I visit with dairymen both here in Vermont and in other parts of the country, most are in agreement that we need to change the way milk is priced and that the dairy industry needs to adopt a multiple component pricing plan. In fact, here in New England states Cabot Creamery, one of the larger cooperatives, has been using such a system for over 10 years. Agri-Mark, the largest New England cooperative, has a multiple component pricing for one block of milk. The plant where we market our milk uses a similar system. This Commission might question whether they should consider addressing the subject of multiple component pricing. If you are in doubt, let me point out the following benefits of multiple component pricing to the industry. They are: No. 1, make our milk pricing system market-oriented, that is, give dairymen the incentive to produce the kind of milk plants need and consumers are buying; No. 2, pay all dairymen fairly and equitably; No. 3, increase dairymen's income in the long run; No. 4, increase the efficiency of our dairy plants; and No. 5, help to provide consumers with better quality dairy products at as reasonable a price as possible. For the entire industry to benefit from multiple component pricing it needs to be adopted by the Federal Order System. The precedent has just been set in this regard. Two weeks ago, the USDA Dairy Division recommended a multiple component pricing plan for the great basin Federal order. This will be the first time for a multiple component pricing plan to be used in the Federal order. This great basin plan would basically price Class I milk as is currently being done. Class II and Class III milk would be priced based on both its fat and protein content. Attached to my testimony you will find a copy of USDA's recommended decision. I urge each of you to study this decision. This recommended decision gives the reason for multiple component pricing and supports the benefits I cited earlier. It answers the objections and questions that opponents have voiced and explains how such a system can work in the Federal orders. Please be mindful of the process that the USDA went through in reaching a recommended decision such as this one. A public hearing was held which gave both proponents and opponents an opportunity to voice their opinions. Briefs were filed based on the testimony presented. Then about 1 year after the hearing was held, USDA released their recommended decision. The point I am making here is that multiple component pricing has been thoroughly discussed, debated, and studied. By USDA making this positive recommendation it has shown that market conditions require a change in milk pricing for the benefit of both processors, producers, and consumers. I would like to thank you for the opportunity and privilege to present my views. I ask that you give careful consideration in including them in your report to Congress.

Mr. Douma: Thank you, Mr. Wright. Are there any questions? We thank you for your testimony. Next, we will hear from the panel of John Roberts, Harvey Smith, Virginia Lawton, and Tom Audet.

Mr. Audet: I guess since I have the mike I'll go first. Thank you for this opportunity to address you with my views. I'm

Tom Audet, a dairy farmer from Vermont. Having been 15 years in a family partnership with my brother, presently milking a herd of 120 cows, equal number of young stock, our operation uses nearly 800 acres. The national dairy environment today seems unstable and nondirectional. Its various programs send out contradicting signals to dairymen. We all agree total milk production exceeds demand. Our government finds itself with too much surplus commodities. The concept of the whole herd buyout with both government and remaining dairy producers funding the cause seems a well-planned approach. The CCC tax contribution was intended to improve our markets for dairy products. But overproduction in some areas of the country plus unrestrained imports will negate all progress. Future dairy policy must address the regional concept of milk production. Some areas now are overproducing for government storage. A regional milk plan would assess an area's potential and balance the supply with the demand. New future policies must deal with this overproduction and offer incentives to those sectors of future whole herd buyout that might be targeted to overproducing areas. Another area for future dairy policy at last resort will be milk quotas. Yearly milk production increases of 2 to 4 percent can be achieved through management, nutrition, genetics without growth hormone—even greater increases with growth hormone. This increased production could easily surplus commercial disappearance. Quotas could be used nationally or on a regional basis as needed to balance supply with demand. Future dairy policy must be directed towards achieving more equitable import levels and enforce such limits. American dairy farmers should not be held hostage by overseas stockpiles of one commodity or another. National dairy policy concerning assessments should be avoided and used only in the last resort. If needed, and I think they might, they should be assessed equally on all participating in the market on a milk equivalent basis including all imported and domestic product. Future dairy policies should address the need for a healthy and stable Farm Credit System. Dairy farmers are already paying nearly 1 percent more for their funding due to this prolonged search for a solution. Federal Government help should be directed towards those regional banks needing assistance. Such assistance should be timely and not include drawing down healthy banks. National dairy policies become food policy. American agriculture needs food policy. American farmers need to see their government on record concerning this direction. We must debate openly how much reliance American consumers want to put on foreign food stuffs, guaranteeing that all producers, both foreign and domestic, use the same regulations, inspections, and other health safeguards. American consumers get a good bargain for their food dollar. They are not paying a disproportionate amount for food. Our national dairy policy should allow dairy farmers to get a fair return for their products and not be brought down to a world level of food pricing. Thank you.

Ms. Lawton: Good afternoon. I hope you gentlemen are all enjoying our beautiful New England as much as we are pleased to have you here. My name is Virginia Lawton and I'm a partner with my husband and our son on a 600-acre dairy farm on the banks of Lake Champlain in Bridgeport, Vermont. We have a milking herd of 300 Holsteins. I have many things I'd like to discuss with you concerning the dairy

situation but I will just touch on a few. First, it seems to me that we should allow the 1985 Farm Bill to work its course. It appears to be doing a fairly good job. The Dairy Termination Program, though not approved by everyone, has done what it set out to do, has cut production by dropping the number of milk cows. Here in the northeast we have a tight milk situation which has enabled us to put in place RMCA, which is over-order pricing. This has joined 27,000 farmers from Maine to Maryland and that in itself is quite a feat. And they for the first time will be marketing their own product. I believe that we should keep Federal market pricing in effect, perhaps having some sort of a plan to reflect the differences in production costs and regional conditions. Another program I believe that should be kept in force is the WIC (Women, Infants and Children) program. I think that's one program I have not heard discussed today. It seems to me that this is one of the valuable programs, and Vermont was one of the pilot states when this program was first started and Vermont has gone from a very high infant mortality to being third lowest in the Nation. WIC makes for healthier pregnant mothers, babies with higher birth weight, and children who are better equipped physically and mentally. Fewer of the WIC children—and they are our country's future—will die from nutritionally related disease. To quote Doctor Narkewicz, President of the National Pediatrics Association, as many as 40,000 babies a year could be saved if they had WIC. According to the *American Journal of Public Health* it is especially important for pregnant mothers to participate in WIC as it reduces Federal medicaid payments for newborn infant care. For many of these same reasons I believe the school lunch program is important as many of the children on this program would never have a hot meal that is nutritionally planned or milk to drink without it. I would just like to say on the Farm Credit Bill that everyone has been working very hard to find a solution. My hope is that you come up with a fair solution that will oppose any attempt to further draw down the healthy banks. Promotion is important and I believe Mr. Cross has given you all the good reasons this morning. These were a few of the concerns that I feel are important and I do hope that when you're preparing your report to Congress that you will consider them. Thank you very much. It's nice to have you here.

Mr. Douma: Thank you. Which one of you gentlemen will be next?

Mr. Roberts: Good afternoon. My name is John Roberts. My wife and I run a 75-cow dairy farm, a mixture of grade Holsteins and registered Brown Swiss in Cornwall, Vermont. We are dairy farmers by choice because it is a good way to make a living and raise a family. We enjoy the challenges of the business and in the 10 years that we have farmed for ourselves we have earned reasonable rewards that have encouraged us to modernize and reinvest in the business. We are optimistic about the future for a well-managed, businesslike dairy operation. Everyone has the right to attempt to succeed as a dairy farmer with consideration to the financial commitment. Everyone had the right to fail. Dairy must not become a business that is unduly shielded from the perils of poor management and indifference to wise decisionmaking. A dairy industry which is market-oriented, where a good quality product is justly rewarded, should be

the goal of this Board. Do not try to maintain or preserve dairying, rather revitalize the industry to offer the potential for financial reward to those operators who manage their farms well. With that in mind, let's turn our backs on the examples of Canada and the European Economic Community and see quotas for what they really are, an artificial way to allocate resources. There is no doubt that quotas have done nothing to save the family farm, the rate of exits from the dairy industry in Canada has been over 60 percent since their inception, while in the same period of time the American dairy industry lost 30 percent. The same is true in the EEC. One French farm expert is quoted in a British farm magazine in April of this year as saying quotas had effectively strangled the French dairy industry at birth. The rate of exits from the British dairy industry continues to climb over 25 percent in just 3 short years. The hardest hit farmers are the smaller dairy operations where the margins are tighter and any cut in base has a greater effect on the net income. Quotas remind me of the Titanic. We all set sail on this unsinkable foundation for the dairy industry with high hopes and rewards for all only to strike the iceberg of economic reality where prices will rise in the marketplace, demand will fall as consumers seek alternatives. A net result will be base will be cut and the percentage of marginal operations will rise. I remind you that the proportion of survivors of the Titanic to those who originally set sail on her was small. It is probably true that under quotas net farm income might rise. It had better. There will only be a few survivors among whom to divide the income. There are some very positive aspects of the dairy industry today which should be built on. Promotion is working and should be increased. Money is finally being put into research with tremendous potential there. Spreadable butter and carbonated milk seem to have tremendous future potential. As the head of the DRINC verbalized, his goal is to turn oversupply into underutilization. Quality controls should be tightened up so that the consumer can be assured of the very best products from the bulk tank to the dining room table. Finally, regional differences in demand and supply should be recognized. In summing up, I would only like to say that when you are reviewing all the testimony that you've heard all over this great country, remember the Titanic. Thank you.

Mr. Smith: Mr. Chairman, members of the Board, I would like to thank you for coming to Vermont and giving us an opportunity to speak to you and address some dairy issues.

My name is Harvey Smith. I operate a family farm in New Haven, Vermont, where we milk 60 cows. I would like to address several areas of concern over which we as farmers have limited or partial control. One such area is new technology.

With new technologies our decisions to accept or reject what has been presented depends mainly on the profitability. I see this as being true also in the future.

The changing society from rural to urban makes another area of concern. With this change came change in land use and land value. We find it hard to continue farming in some places without some type of State land-use program due to the rapid rate of increase in land pricing.

Another area of concern is our Farm Credit System. We've had a lot of problems with it and I know that is being worked on. I hope this will continue with results that don't draw down healthy banks in the process.

Unlike the weather which is one of the easiest unpredictable elements to deal with, politics is one of the hardest areas to deal with, especially the supply management programs. I'm in favor of supply management providing it's on a voluntary basis. I think the diversion program was a good program. I don't, however, believe it was run long enough to have any long lasting effects, but it was probably implemented as a stopgap measure to begin with. The Dairy Termination Program is another program that I feel has been working, but, the timing was off. If we go into another diversion or termination program, I would like to have more lead time. This last diversion program gave very little time for preparing for a decision. The government made changes right up until the last moment in the rules. It was hard to come up with sound decisions, when the time and professional help were so limited. In some cases faulty decisions were made due to faulty information. Should we have more programs like these, I would like more lead time; complete rules before signup and possibly supply management on a regional basis. Another part of the program I was upset over was the lack of both sides carrying out their agreement. Congress or USDA ran out of money and didn't pay the farmers. That money has been planned on for paying bills, buying crop needs, getting feed, or whatever else. The point is that it caused real hardship on farmers. They were expected to find other sources for meeting their needs. When the government is late paying, I feel that they should have to pay interest on those funds for the period of time which they are late.

The area of concern I'd like to address is the price support program, especially the price support cuts. Are they really fair? The reason I ask that question is I think the dairy farmers have done a fantastic job and earned quite a burden with prior support price cuts, the cost of the termination program, and the increased advertising. On the other hand, I wonder if USDA has been living up to their part of the arrangement. I understand that products are coming into this country that are slipping past duties, quotas, whatever the label. I was reading about an unfinished sweet chocolate that's been coming in from Canada. I don't know the actual poundage, but it's my understanding that about 20 million pounds of dry whole milk which would be about 200 million pounds of fluid milk is coming into the United States. Why isn't this counted into the amounts when the formula is figured where the trigger mechanism is set for the next cut? We've got casein coming in as well as cheese products plus new products all coming in circumventing the existing rules. How do we address this problem? USDA estimates 5.3 billion pounds of milk, the congressional budget office estimates 4.9 billion pounds. Just a few hundred million pounds of milk equivalent would trigger the price cut or not trigger it. We need to address this issue, we need to count all the extras.

The last concern is the National Dairy Promotion Board under the 1985 Farm Bill. Forming it was a good move. I like the fact that we're having increased sales in all of our prod-

ucts, and that commercial disappearance of milk has increased. One aspect of the board I don't like is the way it is appointed by the Secretary of Agriculture. I feel that is too political. I would like to see the board that is elected by the industry, either dairy farmers, representatives of cooperatives, handlers or other people in the industry. These last 2 years the board has made careful decisions. They also have been watched long and hard. We want to see our dollars spent where they will do the most good for us. There's been talk about the 50-cent support price cut, of maybe having a compromise—instead of the cut, making an increase of 10 cents in promotion. I think I'm skeptically favorable of that. I want to make sure that all the dollars we spend on promotion are truly used in a good, efficient way, that we are getting our dollar's worth. Thank you. Any questions?

Mr. Douma: I have a question for Virginia Lawton. You said you favored the continuance of the 1985 Farm Bill. That's a 5-year farm bill.

Ms. Lawton: Yes.

Mr. Douma: And we've gone through the whole herd termination. We have the potential of three annual cuts if purchases are not below 5 billion pounds and even under that scenario you still favorite it? In other words, I think in the same breath you said that if the market demand in the northeast is sufficient, the RCMA's should offset any support price reduction.

Ms. Lawton: That's the way I feel that RCMA should offset any support price reduction. I also agree with Harvey that when figuring this trigger, they should take into consideration some of these things that are being imported and figure it into the equivalent number of pounds of milk and take that off that amount charged to the dairy industry.

Mr. Douma: Thank you. Are there any other questions?

Mr. Mertens: Tom, you talked about regional. Evidently you had in mind the New England region. Where would you draw the line down?

Mr. Audet: I don't have any map that I have cut out yet. It would definitely take some time to work it out. But I think that it's a whole concept of one area or just say any farmer producing more and sort of killing the price for everyone. I think the whole thing goes in step—

Mr. Mertens: I can understand that but when you start talking about regions, especially back here in the east, you're going to have states right up against each other. You're either going to include New York or leave it out or you're going to have to bring in Pennsylvania or you're going to have people right next to each other in different situations.

Mr. Audet: It would really take some working on to get out the regions. No question about it.

Mr. Mertens: We've got three different regions in the state of California alone. What's the matter with Pennsylvania?

Mr. Douma: With that, we thank you for your testimony. Our next panel is Alicia Letourneau, January Desrochers, and Mercedes Patenaude.

Ms. Desrochers: My name is Jan Desrochers and I'm from Newport Center and, if nothing else, you guys have learned

that you can take 10 farmers and put them in the same room, ask them the same question and they'll all give you a different answer. That you can count on. I'm very honored to be able to speak to you today and I appreciate the fact that you've come to the beautiful State of Vermont to hear us. My husband and I own a dairy farm in Newport Center. We own 250 acres, 50 milking cows, and 40 heifers. We bought it from my father-in-law who owned it since 1932. In 1981 we bought another farm 7 miles away, another 250-acre farm in a partnership with a friend of ours and one of the reasons we did that is because we have three children and if any of our children want to farm we want to give them the opportunity to be able to farm like we had the chance to because of my father-in-law. The partnership would give us an income that my children could buy our farm cheap enough that we wouldn't have to. I've been going to meetings all year long. I'm not a politician but I'm a bookkeeper. I take care of our books and I can see that the money is not coming in the way it should be. When we bought the farm in 1981 the interest rate was 17 1/2 percent. Things were going good. We had 75 milking cows down there, but we've had to increase our milk production and our herd because the milk price went down and all our expenses went up. Unfortunately, we have an electric company that has gone from \$3,600 a year to \$7,800 a year in 5 years' time. So the drop in interest rate has paid my electric bill and that's about it.

We bring in 50,000 bales in a summer and in order to buy any machinery we hire out. We hire to bale other people's hay so we can make enough money because the farms do not generate enough money for any additional expenses and we do not want to have to go to the bank and borrow. Our payments are high enough as it is. Loan programs are great but you have to have enough money to pay back the loans. So the problem is the dollar sign. We need more money for our milk. Period. The Harkin-Gephardt Bill, I looked into it and I have been to several meetings. In April there was a meeting in Montpelier with 17 states present of farmers. I brought my books from 5 years as did, I think, eight other people in the room. And we worked and we worked and we worked trying to figure out if we were going to lose or make money. At the time it was a 5-year program. You take out the high, you take out the low, and you average the 3 middle years. Well, there were a lot of people that either cut back their herd or increased their herd so it wasn't going to pay them off one way or another. So we gave the options of the high/low or last year's milk production. They had options. And we all made money that way. We figured out our books, whether we had to pay for grain, whether we had to pay for feed, we all made money because we were getting a fair price for our milk and we were also figuring out all of our expenses that were in there. I really don't think that a supply management can be voluntary. I just don't think it would work. You'd have too many people that wouldn't volunteer and it would not be fair. The only way you can have it is if it is passed as a bill and people all have to do it. Regionalization, when we did our books there was a man from California who came in and he had 600 cows and we understand that they can have more cows there. We can't do it and we want to be just as fair to him as anybody else. Granted, he has more cows. There are a lot of people here that have a lot more cows than we do, but we can all make

money. That's what we want. In the end we want to make money. Period. Whether we have 20 cows or whether we have 500, we want a profit at the end. And at the present time there's no profit. So I really think the Harkin Bill is something you really really should look into and I think it would work. Thank you.

Ms. Patenaude: I'm Mercedes Patenaude. Co-working with my husband we operate a dairy farm in Newport Center. We have 60 milking cows. We have over a hundred heads that we raise from young. And milk is nature's soft drink. Give it your top priority. Give farmers a living, not just existing. Promises don't pay our bills. Our net income has declined for the past year. We are at a crisis assessment. An assessment we don't need anymore. Take a good look and notice how farmers have to slave to feed the Nation and slavery was abolished with President Lincoln. It seems that there could be some way to help. Since the government helped us get into this mess it seems that if you guys study it we ought to be able to get out of this mess. Maybe with 70 percent parity farmers can live. At 52 percent people just exist. We cannot maintain a standard of living and even the bankers, you go to the bank and they'll say you can't pay up the loan because we're not making enough money. Over-order pricing with supply demand is about the only way. And Paul Johnson, the president of Agri-Mark, told us, when we called last year and begged for some more money for our milk when they were dumping the milk, we can't do it. The Federal order has made a price on it. We can't give you any more than what the Federal order gives us. We can't go over the order of pricing. Even though Agri-Mark made in 1985, \$6,000,600 in 1985 and in 1986 they made over 5 million, they only gave us a very small percentage, less than one-eighth of that. And most of it back in shares. So right now the way the Federal order pricing is you can't give us, they don't need to give us any more money and we have to live with that money but they're making more money on us, the dairy farmer, and slowly putting the dairy farmer out of business even though we're shareholders. And also on another item, they said that the majority of the dairy farmers that have gone out of business in Canada where they have the quota, you probably didn't know had 10 cows or less. And 20 percent had three cows or less. Those dairy farmers are on the Canadian border, as I'm a Canadian descendent. So the average dairy farm in Quebec today supports two families on 35-cow farming. Thank you very much and I hope that you will continue to do your best in helping us out.

Mr. Douma: Thank you.

Mr. Daigle: Mr. Chairman, Board members, my name is Yves Daigle and I own and operate a farm in the northern part of Vermont. I manage 400 acres of land and own 110 head of registered Holstein cattle. I've been farming for 25 years. The past 2 years have been some of the worst and most depressing of all of them. It is evident that a disaster of historic and heartbreaking proportions has overtaken the American farmers. A family farm is dying every 6 minutes of every day. And that's according to James Anderson, a research consultant from Michigan. The cost of Federal farm programs is at an all-time high, yet American farmers are going out of business and thrown off the land at an unbelievable rate. We've had hundreds of thousands of farmers

go out of business, many by bankruptcy. Yet a third of our family farms are still struggling and deeply in debt. Here in our own state of Vermont the picture has been no different.

When I started farming 25 years ago in my county alone there was 2,100 farms and today there's around 2,600 in the whole state. And we are still losing them. As farmers we are concerned about losing our farms, our income, and our family's future. We are just as concerned about what the loss of family farming means for Vermont's rural communities, for the whole state economy, and for the Vermont way of life. I'm also a selectman in my little town of Westfield and I've been for 15 years. I've seen our farm numbers diminish from 30 farms to 7, and I can tell you that the town of Westfield is no longer the same. The beauty of the open land is no longer there. It has grown back to alders, buckner brush, and I don't know if any of you are familiar with the town of Westfield but as you come into the town there is a long, flat with farmland on both sides of the road, Route 100, and it is not a very good looking sight as you come into our beautiful town to see it grown up into brush and alders. The farmers who were farming it are no longer there. The buildings are down. And someone bought it for development and didn't pass Act 250 so the land is standing there idle and nothing is happening with it. The burden of taxes has been shifted much upon the shoulders of the elderly and people who are on fixed incomes. I have not come here today to tell you that all is well on farms because I probably would be lying to you. There is a dark cloud hovering over the land. These are hard, stressful, and sad times for farmers and for agriculture. And I see no bright lights in the near future in agriculture, at least for the next couple or 3 years. We are told by Agricultural Committee members and experts that farm income is up, that prices are better, that things are looking up. I attended a hearing this past week where Secretary Ling said that farmers' income was drastically up. But I don't see this in my milk check and we are short of milk in New England besides that. The June Class I, 1987, was 13.52; 1986, 13.50. We received an increase of 2 cents over last year. In the Class II we received an increase of 7 cents. The June blend price that we are being paid for was \$11.74 this year and last year was \$11.61. These prices are certainly not going to bail out the farmers. We need a lot more than that and I don't know where they get their figures, but they don't seem to be very accurate. We farmers are being paid at 52 or 54 percent of parity and no one can operate a business that way. It would be like asking you to operate on half your normal income. We are sometimes called poor managers but we can't manage what we don't have. I believe that on my farm I do a fairly good job. We have a 19,000-pound herd average and the national average is around 12,000. Our young people are having a hard time to get on farms. It is practically impossible for them. I have a neighbor who's been farming for 38 years himself. The farm has been in the family for over 100 years. They have a young daughter who has just graduated from Vermont Technical College. She has been working on the farm. She's been making farm decisions. She is the only one left at home who could take over the farm. The father and the mother would like to turn this farm over to them. They would be glad to do it. But they have a fear that for the 38 years they've spent on that farm and paid for it and the hard days and the hard work, that

perhaps there's a chance that this daughter of theirs will lose it and not because she could be a poor manager but because the income is not there. We need a higher price for our own milk if we are to survive and consumers are willing to pay if the farmers get it and not the middle man. We had a meeting, a group of us farmers had a meeting last summer in the northern part of Vermont. We invited consumers. It was a meeting for consumers. We had doctors and storekeepers and restaurant owners and people from all walks of life. We explained to them what we were getting for our milk and what they were paying. And they were very willing to pay more. Consumers are paying \$5.60 for a gallon of beer, \$5 for a gallon of Coke, \$4.80 for orange juice. We're getting \$2.79 for milk. I think that food today is the best buy, cheapest of anything anyone can buy. We know one thing, that as long as there are people on this planet there will be a need for food. The question is who will produce it? I think that family farms have done a good job and they should continue to do that. My closing remarks, we need a fair price, we need stability, we need long-term planning. I think that if a person is going to get in debt \$300,000-\$400,000 on a farm, he should be able to see some light at the end of the tunnel. We need agricultural policies that make sense and keep farmers on farms. We cannot stand any more price cuts. We cannot stand the price cut that we're scheduled to get in October nor in January. We need to be able to compete with wages out in the work force. We have Kraft Food about a quarter of a mile from me. Starting wages at Kraft Food are \$8 an hour. We have to compete with these wages. When I want to hire somebody—my kids are all gone now and I have to hire. When I offer people, farmers work, what, 70 hours, 60 hours, I cannot pay a man \$8 an hour. We have to be content with lower grade help. We do not need any more programs that will assess farmers. I am for a supply management program. We have gone through the diversion. We have gone through the, well, we're going through the buy-out. We're on our second year of it, towards the last half of the second year. Three years will go real quick. Then what. When I first heard of a supply and management program, I was dead against it. I said nobody's going to tell me how much milk I can produce, but as I looked over the last 25 years, I think the time has come where maybe we should at least try it. It's not like we're locked into it for life. There is a farmer referendum where we could vote on it every 4 years. I would be very willing to change it. Thank you very much for listening.

Mr. Douma: Thank you, Alicia.

Ms. Letourneau: I'm Alicia Letourneau from Derby, located at the very tip of Vermont on the Canadian border. And what disturbs me and all the neighbors around us is the fact that the milk price is going down and our expenses are really skyrocketing as we're having shorter summers than California or any other states and our winters are long and hard and we have to keep the animals in all this time in the wintertime while I don't see that pricing should be going down to the New England farmers and being cut off the way we're being cut off with the expenses. The farmers up in the northern part of Vermont are going to be going out. I for one. Because we just can't keep paying out, paying out, and no income coming in. I've talked to a few farmers around us

and they say that their problem is the expenditures of trucking their milk from the farm to the co-ops I should say, and the co-ops are not willing to raise their price of milk and these young farmers that are trying to start will not make it. And I'd like to know if there are any alternatives now for these young farmers so when I do go back to my town to be able to tell them if there's any hope in the near, near future. Is there going to be a cutoff of 50 cents? Is that coming for sure or what in January? Also, I wanted to mention that Cabot Co-op imports butter from other states and wraps it as Vermont butter with the seal of Vermont. Is this legal? Why is the public not made aware of this?

Mr. Douma: If your question's of the Commission, we don't make that decision.

Ms. Letourneau: Yes, but is there going to be a cutoff or not?

Mr. Douma: We are dairy farmers and we are faced with that same question. We don't know.

Ms. Letourneau: You don't know either. That's what they want to know there too. And also the meat that was exported to the commissaries overseas, who paid the expenses for this? Was it the farmers or was it the government? I don't know if you know.

Mr. Douma: I believe that was government cost.

Ms. Letourneau: It was government?

Mr. Douma: Yes. It was not a part of the assessment.

Ms. Letourneau: It was not. Okay. Another thing is our co-op which is Cabot, they've made so much profit, why are they not willing to raise our price is what we're trying to find out. Why is the co-op making such big profits and putting the price of milk to the farmers down? We're trying to find this out and we're not getting too far with the co-ops. So I was wondering if there could be an investigation on this?

Mr. Douma: Mr. McSparran wants to answer that question.

Mr. McSparran: You say you ship to Cabot?

Ms. Letourneau: Yes, I do.

Mr. McSparran: I live in Pennsylvania and I'm not familiar with your co-op exactly, but I believe they are one of the better cooperatives in the northeast. They are very well managed and they have to make a profit. We have to make a profit in our co-op to withstand any adverse marketings that we might run into. But what they do with their money I think you should address to them, not to us.

Ms. Letourneau: Okay. We've tried that and that's why I'm asking you. Right, Yves? Well, I thank you very much for your time to listen to us anyway.

Mr. Douma: Thank all of you. Are there any questions?

Mr. Aycock: I'll just make one statement if I might about your cooperative. It is responsible to you as a producer and I'm sure they'll give you an answer.

Ms. Letourneau: Their answer is they're unable to go up in price because all the other milk handlers don't go up. That's the answer we keep getting.

Mr. Aycock: That's a great problem.

Mr. Williams: You better believe it.

Ms. Letourneau: I would like to know if there could be an investigation why they can't raise their own prices?

Mr. Aycock: The big problem arises when you get to the marketplace and you have a product that's the same as somebody else's but that's priced higher. You have to do a heck of job in marketing to be able to persuade that consumer to pay the extra bucks for what you're producing. We're confronted with a very similar situation. We go in supermarkets in the second place. We do a lot of processing in our co-op and we do a lot of promotions on the side to promote our product. We've gotten good results but we've got to pay for it.

Ms. Letourneau: Well, I'll try to survive.

Mr. Turba: We're concerned about long-term stability in the dairy and other farming enterprises and under the Harkin Bill there's a referendum every 4 years, is that correct? That really doesn't give much permanence, because the referendum could be voted down. What happens then?

Ms. Patenaude: It's governed by the farmers.

Mr. Turba: I understand but if it's not passed, what happens? What's the program then? Is there no program? Strictly a free market?

Mr. Clark: Go back to the one we've got now which is no good.

Ms. Desrochers: There are no choices. Right now nobody has anything to offer us realistically except—they are offering us a fair price for our product. What happens then? What we're doing right now and probably end up getting the same thing we are 4 years from now if this did pass, 4 years from now if people didn't think it was working well, most likely they would already have another alternative if they didn't we would go back to where we are right now. But it would probably pass if everybody was doing a lot better.

Mr. Foster: You've referred to fair price several times. I wondered if you could give us some idea as to what you consider to be a fair price?

Ms. Desrochers: That's hard.

Mr. Foster: I know it's difficult.

Ms. Desrochers: 70-percent parity. Fair price for one thing is not fair for another. If you have a \$200,000 income and somebody has \$50,000, you have entirely different operating expenses. We're working anywhere from the \$14 to \$16 milk.

Mr. Foster: Do you think \$14 would be acceptable?

Ms. Desrochers: At the present time, if everything goes up, everything else—and it would go up. If grain went up this parity price would go up to offset.

Mr. Douma: With that, we thank all of you for your testimony. Our next panel is Walter Pyle and Bruce Paglia.

Mr. Pyle: Thank you, gentlemen, for coming to Vermont. My name's Walter Pyle. Our family runs a 110-cow registered Jersey operation about 75 miles west of here. Seventy-six miles you'd be swimming in Champlain so we're about as far west in Vermont as you can go. Also, in addition to milking 110 cows from our farm we send about 40 to 50 head of

registered Jersey cattle around the country. This last year we sent to Illinois, Arizona, California. I'm kind of shooting from the cuff because I spent this morning getting a group of heifers ready to go to Japan so I was a little late taking off and I left my testimony at home. I'm also president of Vermont Farm Bureau and I see looking around the table you have two southern state presidents sitting there and you know the position. And I support the American Farm Bureau position of leaving the 1985 Farm Bill intact and letting it run its course. The question we've got to answer is where do we go in 1990 and beyond. At this point I would like to say that I'm not speaking for the Vermont Farm Bureau because we're in the middle of the policymaking. Our farmers are meeting around the state and we don't know where we're going to go next year. As I said, you already know what last year's position was so I would like to talk a little bit about my feelings. I am opposed to mandatory supply management. Any way around it. Voluntary maybe. We look at the diversion program, we look at the whole herd buyout and my main concern with those two programs is the assessment program. Dairy's the only government farm program that the dairy farmers paid for. Grain farmers don't pay assessments for their program. If we're going to pay assessments for our dairy program I think it ought to be across the Board and all farm programs ought to be the same. I think the calf removal program has some alternatives for a voluntary supply management, but time will tell. We are in the northeast now, as you know they tell us we're not in a surplus situation. RCMA appears to be starting to work and I personally feel maybe we need less government involvement. The government buys about 5 million pounds of milk product a year. Maybe they ought to be a customer, not the buyer of last resort. Maybe it's time to have a little less government involvement and maybe it's time for us farmers to get together such as we have with RCMA. Federal support price I consider a minimum wage and if we're stupid enough to keep taking minimum wage, the farmers can't get together and try to get more, maybe that's all we deserve. I'm probably forgetting something I had written down but I think I'll let it go at that.

Mr. Douma: Thank you.

Mr. Paglia: Mr. Chairman, my name is Bruce Paglia and I was born and brought up on a dairy farm about 14 miles west of here in Woodstock. That farm is no longer in business. It's been developed into condominiums. My family and I own and operate a 300-acre farm in Bridgewater which is about 24 miles from here and we are a nondairy diversified farming operation. That is, we raise beef cattle, produce maple syrup, vegetables, and other small crops. I've heard a lot of people comment today about the volatility of pricing in the dairy industry and believe me you do have it but I think the vegetable industry has it even worse. When you can see squash go from \$8 a box on the Boston market one day to \$2 the next day, talk about planning. It's almost impossible. Today I'm going to be speaking on behalf of the Vermont State Grange and the 5,400 Vermonters that it represents. Some of our policies have been in effect for several years. We, too, like Farm Bureau are in the midst of developing new ones and so we will have some changes in the future. At the present time, however, Vermont State Grange be-

lieves that we should continue with the 1985 Farm Bill. Farmers in Vermont have paid a great amount of money to support the whole herd buyout. And we're finally in a position where we believe that these farmers can now capitalize on that investment. We do not believe now is the time to change direction. We feel that any change, any dramatic change would be devastating to the dairy industry here in Vermont and in New England. We also support RCMA and its goal of increasing milk prices paid to dairy farmers. After months of work on the part of dairymen, dairy cooperatives, and other farm organizations, it now appears as though the farmers for the first time may see some results with a September price increase of about 70 cents per hundredweight over the projected support price of 13.75. We are opposed to mandatory quotas. We do not believe that in an economy such as the one we have in this country that a quota system will work. We know it has been looked into many times in the past 40 some years and for some reason has never been implemented. Recognizing that in the very near future when the whole herd buyout program is over with by 1990 and with new technologies such as the bovine growth hormone, the dairy industry's going to face a surplus situation and will in fact probably see that before then, we would offer a couple of proposals to this Committee that we feel could address this situation. The first proposal that we would offer is one that has been offered by Vermont Senator Francis Howrigan in Washington before. It is called a three-tier milk pricing program. In this three-tiered program farmers are paid one price for Class I milk, a slightly reduced price for Class II milk, that is, milk going into cheeses, etcetera, and a drastically reduced price, somewhere down around \$2 or \$3 per hundredweight probably for Class III or the surplus milk. The idea behind this is with the reduced price on the surplus that a farmer may in fact find it not cost-effective to continue producing at that rate. Although we do not believe in the implementation of mandatory quotas, we do feel that any supply management system if implemented should be voluntary. The other possibility we see is labeling. Recently USDA rejected a proposal by the American Farm Bureau to conspicuously label those products using imitation dairy products. There has been a trend in the past several years by consumers to move toward natural foods and away from imitations. The reasons given by USDA we feel were not justified in that they did not benefit the consumer or the dairy industry. The other possibility that we see is in the trade program. We feel the casein imports must be limited although they are a dairy import. They are presently displacing some 6 million pounds of milk per year in this country. If you take into consideration 6 million pounds displaced by casein imports in the chart that we have to the left, it would say that the trigger point for the next price support should be substantially higher than the 5.3 million pounds. The second area that we look at is the 3.5 million pounds that is now being consumed by the government for military use and through other programs. Again, this is considered part of the surplus. Once consumed we do not feel that this is any longer a surplus. It is in fact gone. Therefore, why should farmers suffer 50 cents reduction in the support price on a product that is being consumed.

In closing, Mr. Chairman, I would just like to say that we feel that to have an effective dairy policy we should have some

kind of a pricing mechanism such as that proposed by Senator Howrigan. We should require conspicuous labeling of all products that have in them imitation dairy products. We must recognize the impact of casein imports and the consumption of the dairy surpluses by the government, and if we are going to stay with the price support program and a triggering mechanism for reducing that support price, then it is imperative that these two items, the last two items, be taken into consideration. Finally, we believe that education of the public is probably in the best interest of the dairy industry. The dairy industry produces one of the purest products that the consumers can buy today. Thank you.

Mr. Douma: We thank you. Mike Horner?

Mr. Horner: Gentlemen, to each of you, you said we should let the 1985 Farm Bill run its course. Does that include taking the three cuts that are coming up?

Mr. Paglia: Let me respond to that. I think that if we are saying that we have any alternatives at this point, politically we're kidding ourselves. I do not see that in the next 2 years, or between now and 1990 we would effect any changes in the current Farm Bill. I'm not sure that we are going to have the next three cuts coming up. I don't think anybody sitting here at this table or at this Committee hearing can say for sure this is going to happen. It is projected but nobody knows for sure.

Mr. Horner: Before he finishes, I want you to answer that question, too, but first, in the same light almost everybody that's testified here today tells us that this is a deficit area as far as production is concerned. How do you want this Commission to come up with a policy, or program if you propose we leave the 1985 Farm Bill intact? I want you to cover that too.

Mr. Paglia: Why don't you answer first?

Mr. Pyle: The 1985 Farm Bill to me is the best alternative I've heard for the next few years. I don't like the idea of taking less money, but the fact that we are in a deficit area and the fact national co-ops in the northeast region have gotten together I feel that we can weather the storm through RCMA to gain more money to make up for some of the losses. I look at the Federal price support as being minimum wage. If we can't get together to get away from that minimum wage, that's what we deserve.

Mr. Paglia: In response to your second question, I guess my feeling is that if we look at RCMA and the projections for September pricing of 70 cents over the support price, that is going to be approximately \$14.45 per hundred. I have heard people say here today before this Committee in testimony that if they were receiving between \$14 and \$17 per hundred they could make a go at dairy farming. I think RCMA is in place. RCMA will work as long as we have a deficit. I think one of the policy situations or one of the concerns that we have here in New England and in Vermont is what do we do when we become a surplus area. RCMA will not work in a surplus but I do feel, and the grange feels, that Senator Howrigan's proposal on a three-tier pricing system would work.

Mr. Douma: Concerning three-tier pricing, when you say Class II, we're really talking about Class II and III in other

Federal orders. In the northeast you only have two classes and most of the Federal orders have three. So I assume your second class would include what is now today the Class III price in all other Federal orders. I'm making that assumption when I ask the next question.

Mr. Paglia: I would have to assume so. I'm not familiar with the orders.

Mr. Pyle: It's all manufactured product. I don't know the other two and three but it's all manufactured product, whether it's ice cream, yogurt, or whatever.

Mr. Douma: Then, how would you get to the third class without a quota system? Would that third class be a blend of all three classes including the surplus amount?

Mr. Pyle: The third class would be what is sold to the government right now.

Mr. Douma: That's correct.

Mr. Pyle: We would receive a blend price of the three.

Mr. Douma: Of the three classes?

Mr. Pyle: Yes. But the very low price would be on what's sold to the government as I understand Senator Howngan.

Mr. Foster: You would be establishing a base each year in order to arrive at your individual price?

Mr. Pyle: If production was in a surplus, I would assume so because in a deficit we don't worry anyway because the price will creep up beyond support price anyway.

Mr. Douma: You make the assumption the northeast is in a deficit and has very little of the surplus. We have another region, and I'll take the West, that has the alternative of selling to the government at this very low price or undercutting their butter and cheese prices and selling it into the northeast for more than the government price but less than you're currently selling for, what happens to your price?

Mr. Pyle: I see what you're saying.

Mr. Douma: That really then becomes the new support price.

Mr. Pyle: I was just trying to help explain what our Senator has been talking about.

Mr. Douma: Are there any other questions?

Mr. Turba: Bruce, you objected to calling what the government purchases for their needs (the army, and school lunch program) surplus. You said that dairy farmers should not be penalized because of 3 1/2 billion pounds of milk. The penalty comes in at 5 billion pounds, but whether they're using 3 1/2 or 5 billion is immaterial. My question is, isn't it just a matter of interpretation here where the government is saying that they need X-pounds of milk for their program and they will be a customer for that? If we produce more than that, we will face a price drop. What's the difference whether we consider the government a customer or not?

Mr. Paglia: I guess the way I would look at it from what information I've been able to gather, is the 3 1/2 billion pounds more or less that the government needs in its various programs is part of the 5.3 billion pound surplus. And what the government is saying is, and this is where I object,

is that we're going to consume 3 1/2 billion, but if you produce 5.3 of which we have already used 3 1/2 billion of it we're going to penalize you. What they're saying is if you produce 1.8 billion pounds over total consumption, we will penalize you. Not 5 billion or 5.3.

Mr. Turba: At what point should the penalty come then?

Mr. Paglia: What I'm saying is if you're looking at 5.3 billion surplus it should be after the government has consumed its 3.5 which then is going to move you to 6.8 or something like that. 8.5, yes. Therefore 8.5 billion pounds should be the trigger point before you would receive a reduction in the support price.

Mr. Rutherford: Someone in the back.

Ms. Saucier: Linda Saucier. My husband and I farm in South Ryegate, Vermont, and it was my understanding that under RCMA we were not going to be actually getting a 70-cents addition to our milk check. It's going to be somewhere around 35 or 40 cents.

Mr. Rutherford: Thank you very much. I was going to clarify that so that nobody misunderstood. The \$14.45 was a Class I price, not what the farmer was going to receive. Are there any other comments?

Mr. Horner: I was wondering about that, Mr. Chairman. I thought you guys in the northeast were grossly overpaid.

Mr. Rutherford: I was hoping that you'd come and buy a Vermont farm. You deserve it. Are there any other comments? Vermont doesn't deserve him. I wouldn't do that to my sister state. Gentlemen, thank you very much. Jim Williams and Gordon Williams, please come forward.

Mr. G. Williams: I'm Gordon Williams. We farm in Hatfield, Massachusetts. My son and I milk about 80 cows on a 175-acre farm along the Connecticut River. We depend on the Farm Credit System to run our business and feel strongly that the Federal Government should do everything necessary to see to it that it is preserved. We couldn't really stay in business without the system. It's the only system that really addresses credit needs to the farmer. The support system to the dairy farmer are very important in order for farmers to survive and the cooperative extension is another support system that has helped farmers become the most efficient in the world. I think we need a pricing system based on regions. Over-order pricing will be in effect in the northeast that everyone has alluded to and the cooperatives. I think, and Farm Bureau have done a good job getting this into effect in the northeast, and while I'm talking about the cooperatives, I think that it should be noted that the cooperatives have served the dairy industry very well. They've done a good job in balancing milk supplies and I think they've been a great promoter to the dairy industry. Thank you very much.

Mr. J. Williams: I'm sitting next to my brother who used to be a partner of mine and then he left me and went to another farm and we're both milking the same amount of cows and farming on the Connecticut River. We used to be tobacco farmers as well as dairymen, but the tobacco industry went out of the valley and became unprofitable so he went strictly to dairy. We milked 80 cows and we farm on the old

home farm which has been in the Williams family since 1775. We rent a lot of land and we work around an area that's being very highly developed which makes it very difficult to farm. Our farm is in the Agricultural Preservation Restriction Program which means that it will always be farmed. We're pretty happy about that. I farm with my son in a partnership arrangement. The present Farm Bill has worked too well in Massachusetts with bigger farms going out and the lowering of the price and high land prices causing other dairy farms to sell out. Higher prices for milk may help to stop this landslide. I believe that the government's support program has worked well in the past to keep supplies and prices level but when we went to 80 percent of parity in the late seventies and grain prices took a tumble, too many were urged to go into milk production or went into milk production because it was very profitable. New efficient methods of producing milk and higher producing animals also caused a glut in the market, so looking at the past and ahead to the future, it seems to me that there need to be a few changes in the program. Tying the price to production seems like a logical way to keep the market fairly stable. However, different regions of the country are overproducing and others underproducing. So we need to address this problem. Higher prices are needed in deficit areas. We now have higher differentials in the northeast which help but will need adjusting to the market demands. RCMA can solve this problem very nicely. Bargaining agencies in other regions are also active. In conclusion, I would think that adjusting price according to the milk supply by the Secretary of Agriculture using an adopted formula would keep the milk market stable. A new parity price system should be adopted so prices can fluctuate with general market conditions. Eventually I hope we, the dairymen, will be organized through cooperatives to handle all our marketing problems, including the surplus supplies and not depend on the government as we do now. It can happen. Thank you.

Mr. Rutherford: Thank you, Jim. Are there any questions or comments?

Mr. Aycock: Why did tobacco growing become unprofitable for you?

Mr. J. Williams: We raised cigar tobacco and a blend product came along where you grind up all the leaves and make a blended type of cigar which is a cheap cigar at a cheap tobacco and we no longer could afford to raise the type of tobacco we were raising and it's now being raised in different parts of the country.

Mr. Rutherford: Probably North Carolina, Jim.

Mr. Aycock: Did you have a quota program?

Mr. J. Williams: Yes, the tobacco industry has a quota program.

Mr. Aycock: I mean you did have a quota program in Massachusetts?

Mr. J. Williams: Yes.

Mr. Aycock: Right. So actually the foreigners took your markets?

Mr. J. Williams: Which took our market?

Mr. Aycock: The foreigners.

Mr. J. Williams: Yes.

Mr. Aycock: Imports. The same thing happened down in the southeast.

Mr. J. Williams: You must be from North Carolina.

Mr. Aycock: Yes, I am.

Mr. Rutherford: I always thought with Jesse Helms they never lost down there. Jim and Gordon, you've touched on the fringes of it, but just what are your feelings on supply management?

Mr. J. Williams: I believe that price determines the market. If the price is high, people are going to grow more or make a lot more milk and the price goes down and they'll produce less. It doesn't always work immediately but eventually it does. So I think that's a sort of, it's a market supply or supply demand system that's going to work. It's always worked and I think that's what we should depend on and not a quota system.

Mr. G. Williams: I pretty much agree with Jim. I haven't seen a supply management system that I liked. I always questioned the people that run it and I haven't seen a program that I feel comfortable with.

Mr. Rutherford: Are there any further questions or comments?

Mr. Douma: One. There are two things that make milk, more money and less money. Really that's not contradictory. The microeconomics is less money. The entire industry will eventually go down but while that happens the individual to survive is going to produce individually more milk. That's something that has been happening for 50 years and will continue to happen.

Mr. J. Williams: I agree with that.

Mr. Rutherford: I guess tailing about what you said, lower prices will eventually cut production, but in the interim it increases because of the cash flow. We all try to survive. The same way with higher prices, you have to try to take advantage of it. What's your feeling on ever changing programs? Do you feel that it has been a detriment or hasn't it mattered? Do we need to change as often?

Mr. G. Williams: I don't know about programs, but when you begin to switch from 80 percent parity from 70 percent, then you run into a lot of problems, and it seems to me that programs might have worked except that for one reason or another politically motivated or whatever, the prices have been unrealistic and we hadn't really made our pricing system work the way it should have.

Mr. J. Williams: I have one comment and it reminds me of that meeting that we went to down in Miami and I think you and I were on opposite sides on this one, the 80 percent of parity fight that we had on the floor. And a Congressman from California said that now that we've got 80 percent of parity we ought to stick with 80 percent of parity because we'll never get it again if we don't. Some of us thought if we stuck with 80 percent of parity we would eventually flood the market, but other people said that beef was going to be so high in the fall that there would be a lot of cows sold so that we wouldn't flood the market. As it turned out beef didn't go

up and people didn't sell their cows and we got into a lot of trouble and I think that's one of the problems that we've had is that we haven't let the thing go long enough.

Mr. Rutherford: That's really the question. Do we or don't we? Are there any further questions or comments? If not, gentlemen, thank you very much. Next is Linda Saucier, a dairy farmer.

Ms. Saucier: I'm Linda Saucier and my husband Lee and I operate a 50-cow dairy farm in Orange County which is about 30 miles north of here in the town of Newbury, Vermont. We have about 50 cows and we raise all our own replacements. We've been farming only since 1980. My husband was born and raised here in Vermont and grew up working summers on his uncle's farm and always wanted to farm. At the time that he was ready to make a career choice farming wasn't at a good place and he went to Vermont Technical College and graduated from there with an electronics degree. He worked for 15 years at IBM in Essex Junction before we were able to save up enough money to buy a dairy farm. Buying a dairy farm in 1980 things looked pretty good. It was around the time when 80 percent of parity was in effect. We did a lot of projections and it looked like we could make a go of it. We had four children and it looked like we could do it. So we went ahead after a lot of, you know, to make such a change it was really difficult. But it's something he always wanted to do. Needless to say, in 1987 it's a lot different picture. One of the things that's always bothered me about the dairy industry, we tried to look at it in a black-and-white situation but when I compare it to other industries in this country we don't seem to be valuing our product in the way we should be. Other industries look at what it costs to produce their product, what their labor is, and the different aspects that go into it and then they price it. For dairying that's not the case. For whatever reason we're not getting what it's costing us to produce it here in the northeast. I believe this country's always been founded on doing the right thing and I don't think for farming anywhere in this country, for any type of farming right now, farmers are getting what the fair price is for their product. I'm not just talking about dairy farmers, I'm talking about grain farmers. I think what's going on now in farming is wrong, both by what this country was founded on and for a lot of other reasons I believe it's wrong to—we're basically in a way allowing this country to rob us of what is rightfully ours and I think sooner or later, if not this generation, the generations to come are going to pay for what we're doing right now in this country in farming. One of the things that really interested me that somebody pointed out to me was the government knows what milk is worth because they paid \$22.50 a hundredweight, to people that went on the Dairy Termination Program. They know that our product is worth that. They know that our sweat, the machinery that we buy is worth that, a hundredweight \$22.50, that's where the money should be. What we're finding now, we've been farming for 7 years, the machinery that we bought 7 years ago is wearing out. We have no money to replace it. That money should have been there and when you look at our original projections it would have been there. We easily could have made it. In the 7 years that we've been farming I've gone out to work off the farm. My husband is now also working off the

farm. We have a hired man. Basically the majority of the money that my husband is earning right now goes back strictly into the farm and we're living on what I make. It really is, it's upsetting. You know, I come from a different, it's hard for me because a lot of the people that I know that are farming the farm was in their family. Maybe they inherited it from their father, but basically we're looking at a black-and-white picture. We farmed only for 7 years. Nobody gave us any money to start. We did it on our own. So it's real hard for me to know that what was rightfully ours is being taken away and we're allowing it to be taken away because of the system that is currently in place with the government. The other thing that I learned recently and that Mr. Turba from Wisconsin, maybe Mr. Elkin, was talking about, Jim Jeffords, I asked him at the summit hearing in June about what the government was using, and I feel the same way, if the government is using—Jim Jeffords said as close as he can figure is between 4 and 6 billion pounds of milk equivalent the government needs. I don't believe it's right for the government to set their target at 5 billion pounds. I just feel that's wrong. If they're using that much then that should be set, like it should be 8 billion pounds. Something like that if they had to buy 3 billion pounds of excess. The other thing that I really am upset about is that we can't pass our expenses on to the consumer. Here in Vermont a lot of our milk goes to other places and we have to pay to truck it and quite often if you're not shipping to someplace that has a creamery locally you're trucking it to where the population centers are and I think that should be passed on to consumers. I believe in, I guess I'm interested in, supply management in the program under the Harkin-Geppardt Act because it's going to restore to me and my husband what I believe we rightfully earned and I haven't seen any program that does that. We're right now paying, I guess it's, I'm not sure, 40 cents a hundredweight I believe for the Dairy Termination Program and I don't know how long or how effective that's going to be, but I just know that we cannot survive as dairy farmers under the current program.

Mr. Starr: My name is Jack Starr, Sr., and I'm a dairy farmer from Troy, Vermont. I'm also a selectman in the Town of Troy. And I run a 300-acre farm with one of my five sons and we milk 50 cows. To start off, I'm a very strong believer in the supply management plan that's introduced in Washington. I feel from the experience of 38 years of running my own farm and farming with my father for over 50 years total that this is the only way that the family farm in America's going to survive. And I'm going to give you a few reasons why. I also am mixed into banking a little bit and I know the problems of a young farmer out there who's trying to borrow some money, and my son for one. In October I'm 62 years old and I'd like to go down the road the same as my father did. He sold the farm to me. And it's impossible for me to do it because my son cannot borrow any money. Anyone that is not in FmHA now cannot get any loans whatsoever. You can get the guaranteed loan if you're in the process and have been in it and farm credit will lend my son money. I'm looking at a couple hundred and \$50,000 and 10 percent interest. We can see \$25,000 off the top and they know as well as Jack Starr, Sr., knows that Gary Starr is not going to run that farm on \$11 milk, \$10 milk, \$9 milk, whatever they want to say it is. I heard \$14 here a few minutes ago but that's not true. We got

to go by the blend. Let me tell you it's way below and I don't want you guys to get confused with that. I understand most of you are farmers so you're not going to be confused but this \$14 figure should not be used. We're looking at about \$11. And I want to tell you what's happening in my community. As a selectman in the town of Troy we have meetings every 2 weeks, and we met 2 weeks ago Thursday night and the clerk told us that it was the biggest recording in the town of Troy in the history of the town, and I said what was it? Was it people buying farms? She said not one. But she said there was four farms sold. And I said who were they sold to and she said they were sold to outsiders. They were sold to people from Connecticut, one from New Jersey, one from Long Island. Anyway, what that means to me in that little town of Troy is that these farms that were sold and these recordings that were made, these farms are gone forever. You guys want to remember that when a farm goes down the drain today it's gone forever. In the 1930's—I remember the 1930's. I went through the Depression with my father on the family farm. And all of my neighbors and my father's farm was put up for sale and by working in the woods and whatever we made it, but during the Great Depression these farms all came back into farming, every one of them. Because there was nothing else they could do with the land. But today when these farms go out of business and in Vermont, I'm going to speak for Vermont because this is where I was born and brought up, land is on fire. I can go home and before tomorrow night have my farm sold, but let me tell you, it will never be farmed again because people want that farm and I can't see any reason why we couldn't stabilize the milk industry when you have a product that lasts just 60 hours under normal refrigeration or whatever, there's not some way we can't make this supply-demand thing work.

And I think that with the Harkin Bill, that it would work. I've studied it very closely and like on my farm there, we produce 500,000 pounds of milk. We're going to get so much money. We go down and see the banker, you guys have all borrowed money. The first thing the banker asks you what have you got as an income. You go in there now as a farmer and say I don't know. Because next month they may take some more out of you and I'm serious. These are facts. You go in there now and you just tell the banker I don't know and the banker tells you we can't fool with you. We've got to know. It's like a school teacher, a bus driver, a mailman, or whatever, you go in to borrow some money they've got to know if you can repay and this is the dilemma that the American farmer is in. And there's got to be a solution and I can't believe but what the supply management thing would work or a two-tier pricing. I'm not against a two-tier pricing. If a man wants to make X-number of pounds over what he should and if he wants to sell it for \$2 or \$3 a hundred go right ahead and do it, but I think there should be a top price and have it there as something we can depend on. Also my town border is Canada and I'd like to read a little paper that I cut out of the *Montreal Gazette*. It says according to recent press releases from the dairy more than \$30 million has been spent on research for marketing new products. And down on the end, the Dairy Co-op also took the opportunity to express their fears about free trade. The Co-op explained that they feel the Canadian dairy industry would be lost under after advantage of dairy products which are heavily

subsidized by the American government and it would be the death of the family farm in Canada. And with the supply management program there's no need of the government out there buying a product and storing it that lasts only 60 hours. There's no one ever going to make me believe that. We'll do away with the subsidies and we'll furnish the people what milk they need. It's very simple on a farm to go up and down. I don't need to tell you people that are farming. If the quota needs to go up in New England we'll make it go up. If it needs to go down, very simple, you can drop your production. All you've got to do is change the milking time of day. In my area right now, if they take the next 50 cents, 25 and 50, there's creameries right in my area that have not got enough milk to run their business. And I talk with farmer after farmer after farmer and there's many of them waiting to see what's going to happen in Washington. Many of them. And if they take the 50 cents, if they take the 25 cents, and they can see there's no changes down the road, the little State of Vermont is going to be gobbled up by developers and people that I don't think the majority of us want, and the two gentlemen that were here before me, I understand from what one of them said that there's some kind of a land-grant system in Massachusetts and these guys have got a lot of money up front so they'll never develop their land and we've seen a couple of cases of that in the State of Vermont within the last 3 weeks and if we're not very careful and if this thing isn't changed, the whole State of Vermont, all we're going to have left is if the legislature says, yes, we'll buy Jack Starr's development rights and Mary Judd's development rights and I can see it coming. I've kicked around this farm thing for, like I say, for over 50 years. There are 24 miles behind my barn and I can't see a cow nor a man, and when I went there 38 years ago that was all being farmed. There's a 1,600-acre neighbor to me on the south that's owned by one corporation, the Lake Charles Corporation, Lake Charles, Louisiana, and it will never be farmed again and it's more and more and more and we've got to have someone that's got the guts to say that this is going to stop and we're going to work with people and we're going to come up with a system that's going to stabilize the milk industry and if a man wants to live up on the little mountain in Jay or Westfield or Lowell or whatever and run a dairy farm and he's got a decent income he's going to be allowed to do it. Thank you.

Ms. Judd: I'm Mary Judd from Troy. My husband and I started farming in 1962 with 20 milkers. We had four children who helped us through their high school years. Now our two daughters are on their own farms and our two sons are with us and our daughter-in-law. We now have 250 head of cattle and a 440-acre farm and I think my topic is going to be the same as many others before me and after me probably. There's not money enough to keep the farmers farming the land anymore. We sell our milk and take the price they pay us. We sell our beef and calves and take the price that they give us. Here are some examples of how we have to pay the price and no one asked us if we would. The beef promotion investment, this takes \$1 per head for every beef and calf that's sent to slaughter and it amounts to a lot of dollars. As someone mentioned, my daughter mentioned to me when she read this, when we do our income tax we have a choice there of donating a dollar to the presidential campaign or whatever. We didn't have any choice here. This was

just taken. The whole herd buyout, I know we had a choice of staying in farming or going this way and those of us that chose to stay are paying for it in this program and it costs a lot and I wonder if it is working the way they had hoped it would. The rates for rubbish removal in Vermont went up July 1. We must pay the price as we shouldn't take the rubbish and dump it on the back 40 acres. We'd be polluting our environment. We go and buy parts for our machinery and we pay the price because we need the machinery to work the farm. Last week we went and bought this little part to the tune of \$28.85 which is ridiculous. You can spend \$50 to \$75 and lug it home in your hand and it's not heavy either. We had to put a hydraulic pump in one of our tractors. The pump alone cost \$953. With all other parts and labor the bill came to \$2,264. Then the dealer wants to know how soon you can pay this as they need the money too. Machinery dealers are hurting as no one is buying new machinery and many, many people are trying to fix their own repairs. It's very hard to pay bills like this when there's not money enough in the milk checks to pay your regular bills. In the busy seasons, spring, summer and fall, farmers have seed, fertilizer, extra fuel, baler twine, extra grease and oil, and extra help if they can afford it. You may save through the winter for this. How can anyone when they're paying for the previous summer? There are certain things which have to be paid so the farmer can keep operating such as fuel, electric bills, grain, mortgage payments, bedding and supplies and to live like other people. I've known families not to be able to buy groceries and feed their children because they had to pay their light bill, their fuel, and such things. All of this causes much stress among families. We are constantly told the consumer will not pay more for dairy products. We the farmer are consumers also. We pay the price no matter what we buy. Does anyone complain much when the price of beer and soda goes up 30 or 40 cents a six-pack? No. Because they want it and they buy it. I feel it would be the same for dairy products. An example is Ben & Jerry's ice cream. They have a very good product and sales are very high. This shows that if people want a product they'll buy it. What other industry works 7 days a week, 9 long hours, and has the stress and frustration that farmers do trying to put food on the American table and takes what it is given for their income. Also we need to think about saving the Family Farm Act. We need to save the family farms or there will be no rural America when all the farms are gone. Thank you.

Mr. Rutherford: Thank you, Mary. Are there any questions or comments?

Mr. Douma: The federal program, that is Federal marketing orders and support price, sets minimum prices. You don't have to sell for the minimum price, but the nature of the beast is that you end up selling for that minimum price anyway. But I think you have a great thing in the northeast with the RCMA. The market exists so that you can demand that extra premium. You really have the best tool, and it isn't government sponsored. You people are doing it yourselves.

Ms. Judd: If it works and it works long enough it may help.

Mr. Starr: RCMA, I sold milk under that for a couple years. Maybe not quite that long. And it went right down the drain. It didn't work. Here again, we have no stability and I just

want to leave one thought with you people, that we're losing the young farmers. I had five sons. They were brought up on my farm and there's not one of them that couldn't run my farm. I've seen 23 of my neighbors' boys go out of my town in the last 4 years and they were all excellent farmers. They didn't go to college and we didn't have to pay college grants or they didn't have to go borrow money. We taught it to them on the farm and we're losing them at a large rate and my boy that's with me, if he doesn't see a change within the next 3 or 4 months he's going down the drain with the rest of them and this is to me, we're losing one of the greatest assets in the whole world. What they wouldn't give in these other countries to get these young fellows to go over there.

Mr. Rutherford: George Mertens.

Mr. Mertens: Jack, why didn't the RCMA go down the drain in the 1970's.

Mr. Starr: What happened up my way, I'm going to speak for my area. Everybody started knocking the nails of their milk house out the minute they got a little premium. They started adding up 40, 50, 60, 70 cows and, here again, supply management would have been the answer and they built the production up to where it no longer would work. There was a tremendous surplus. The only way RCMA is going to work is if there's not an oversupply and they told us just a year ago in the whole herd buyout that we were drowning them all over the country. Now, of course, we're hearing that New England never had a surplus so I don't know.

Mr. Mertens: Sometimes I think we've met the enemy and it's ourselves.

Mr. Starr: Without controls, you're absolutely right. If you raise milk \$1 a hundred without controls I know what's going to happen. I've been there. There's no question.

Mr. Elkin: As we travel throughout the country, we hear many different concerns, and one of the concerns that's been voiced many times here today is the pull of the land away from agriculture into development. The reason is you need higher milk prices to keep the land from being developed. But it would seem like if there's a real desire to develop that land, and the value's there for people to develop it, they are going to continue to bid that up, regardless of the milk price. Has Vermont looked at any type of agriculture zoning? There may be a lot of reasons to have higher prices for milk, but raising the price in order to keep land in agriculture is probably not a good one. I don't think you can price milk high enough to keep it away from a developer.

Mr. Starr: We have the Act 250 which is a procedure that prime agriculture land isn't supposed to go into development. But when the U.S. Government is out there buying farms out and throwing them down the road, throwing them to the beast, what is your argument that we want that land farmed when we're buying them off the farm and that doesn't work. But there's a lot of us people in Vermont who have sons and we have daughters that want to farm. I can sell my farm for development, but I don't want to sell 38 years of hard work to a developer. I want my son to have it.

Mr. Elkin: I can see that, but if you really are that interested in farming, you could come to the West. We can't sell our farms.

Mr. Starr: I understand that.

Mr. Elkin: The demand is gone and so is the value. That's the other side of the coin.

Mr. Clark: Why can't you sell it?

Mr. Elkin: Total disillusionment with agriculture. They've seen people that have farmed 20, 25 years that have lost their farm. I'm a strong advocate of supply management. Fred said it differently. Two things contribute to more milk production, high prices, low prices. I say it a little different. Two things contribute, greed or need and one or the other always seems to apply.

Ms. Saucier: I think, too, as a country we should look at the availability of producing our food in the area where it's consumed and we have a huge market here in the northeast and I think we should always attempt to maintain some type of farming in the northeast. We may not always have the ability to transport food all over the country as we do now. We may at some point run out of oil and I think if agriculture is viable when you're getting a decent price for your product it makes sense to produce it in the northeast when we have the market here.

Mr. Rutherford: Mr. Rainville.

Mr. Rainville: Mr. Douma in California, I would like to address the part about RCMA. We have a great opportunity. The problem with RCMA, we have independents that are not in co-ops. They discourage RCMA and what they'll do, when RCMA gets in effect, let's say we project a price, they'll come in and say we'll overprice it for a short period of time. What happened is it breaks RCMA to the farmers, it goes up in the air because the farmers will sell themselves for 20 cents more or 15 cents, even a nickel sometimes. Farmers will go over the border and say the heck with you, I ain't going to belong. I don't belong to RCMA. The farmer will break it himself because there's no mandatory saying you have to belong to it. That's why I believe that RCMA would work if everybody would be sincere to it and that's my point of view and I just wanted to get back to the RCMA.

Mr. Mertens: I was told that when I first started in 1968. In 1972 we were really pushing the co-op movement in California. We went to an independent. Bill Morrison was the guy's name. He ran the whole thing for the entire state. He said you guys are just blowing in the wind because I can buy any dairyman for a couple cents on a hundred.

Mr. Rainville: That's what I'm saying.

Mr. Mertens: So it hasn't changed in 20 years and it isn't going to change in the next 20.

Mr. Rainville: Until you get a policy that's going to deal with everybody the same. That's why I support supply management so much.

Mr. Rutherford: Are there any other comments or questions? If not, thank you very much. Our next panel will be Leon Corse, Paul Percey, and Perry Hodgdon.

Mr. Corse: I'm Leon Corse. I'm a dairyman from Whitingham, Vermont, which is down on the Massachusetts border. I farm in partnership with my wife, my brother, and sister-in-law, and my father and mother on a 60-cow farm. In

order for that many of us to live on a farm that size we are diversified. We're also in the maple business and we have other smaller side businesses. We grow Christmas trees and we sell hay and things like that. Normally we figure that when the dairy income is down the maple income will be up; however, right now we've got plenty of milk and not much price and we don't have any syrup and a lot of price, so all of that put together isn't doing any wonders for us. My family has been on the farm for 119 years and various branches of it trace back to the Mayflower. We've never gone very far. We've always lived in southern Vermont or western Massachusetts. I'm also the AgriMark Y.C. vice president and it's in that capacity that I'm appearing here today. I'm going to attempt to give an overview of what I have seen as concerns of the people my age in the dairy business that I've met through my work in that capacity. The first thing I'd like to talk about is technology, in particular, bovine somatotropin. I see that and I think most other young dairy farmers see that as just another technological advance like the tractor was, like A.I. was, and all the others; you know them as well as I do. The dairy industry needs to address that as a technological advance provided that we can prove it isn't harmful in any way to the product that we're producing. I think what needs to be considered in future dairy policy is that it probably is going to come, it's going to increase production, and we need to be prepared to deal with it. The next thing that I see as important to young farmers is long-term stability. It seems to me that over the past few years our dairy policy changes too frequently. We can't make long-range predictions that we can tie ourselves to and be able to fulfill. On our particular farm, because it's been in the family so long, we do have somewhat of an advantage, but in talking with other people my age who have had to buy their farms from outside the family, (don't get me wrong, we're buying ours, but when the mortgage is Mom and Dad's it does make a difference). I think stability is a real problem. Whatever comes as the long-range policy recommendation that you people make needs to address the fact that we need stability in the industry. Promotion is another thing that I think the dairy industry is presently doing a great job on. I think it's done great things for us and if I have any reservation about it, it's that we aren't doing enough. Maybe we should be paying a quarter instead of 15 cents. I think that most farmers could go for that if we could get a program into dairy policy where there was a long-term situation incorporated that you could plan on down the road. I think they could go for 25 cents for promotion to keep dairy products selling so that the program would work. I don't propose to have the answer to how to accomplish all this. I'm just trying to bring out some of the things that I see as problems that need to be addressed and that are of concern to the young farmers in the northeast. I guess the last thing that I would mention that I hear a great deal about, and I know that it's very controversial, is that long-term dairy policy needs to consider the regional differences in the country, the fact that in different areas of the country we sell dairy products for different products. In the northeast we have greater fluid utilization and in some other areas it's greater manufacturing. I think dairy policy needs to address the fact that we do have different ideas and concepts that we have to deal with because of our relation to our potential markets. In closing, I would like

to thank you for this opportunity to address you. I'd like to recap that I think that technology is something that needs to be considered in long-range dairy policy; that continued promotion needs to be definitely incorporated, and that stability is something all of us nationwide would like to see in the dairy policy. I don't envy you your position and I wish you luck in coming up with a policy that we can all live with. Thank you.

Mr. Rutherford: Thank you, Leon. Paul.

Mr. Percey: Good afternoon. I sat in the back here and, gosh, was almost ready to go home and call the auctioneer. Things are pretty tough. But I guess I'd have to disagree with that. I think over the years dairy farming has done me just fine. Now, maybe it isn't the dairy farming, maybe it's the maple syrup because I am in the maple syrup business also. And of course, everybody tries to get their licks in, but Bob Foster called me and wanted me to bring down a sample of maple syrup so you are going to get a sample of maple syrup before you go home and it's going to be mine.

Mr. Rutherford: We can sell it and pay for our farm.

Mr. Percey: At the prices this year you might be able to. But there's only one thing that I haven't heard mentioned and I would like to mention. To me the government sets the price of milk regardless of what kind of programs we have or whether we don't have any government programs at all. Let's assume the government goes out of the dairy program business completely and we depend completely on the market to drive our price. It would seem to me that the minute that price gets up higher than what the government wants the government is going to import and drive our price back down, so any way that you look at it in my mind the government is going to set the price. I think, and it's a known fact, that this administration that we have is not in favor of doing a heck of a lot for the agriculture community, and I think all of agriculture has suffered during this administration. And I don't see any change in that. I don't know what the next administration is going to bring but I'm hoping it's going to be better. I would like to comment a little bit about the fellow from California's way of looking at whether an area is in a surplus or not. I've heard all morning how this area is deficient. Back when I was a kid working for my father we used to have about a 75, 80 percent Class One utilization. Now we're down to 50 percent. Lucky if we can keep it at 50 percent. Everybody's saying we're deficient because we haven't got enough milk to supply the cheese. Well, what's happened over the last 25, 30 years? Basically what's happened is farmers in this area have produced surplus milk which in turn built some cheese plants which in turn has stole the market from the guys which in turn is now selling to the government. So theoretically we're doing the exact same thing that California's doing only the other way a little bit.

Mr. Douma: You're doing it in the same way, also.

Mr. Rutherford: You've got a friend.

Mr. Douma: He understands the system.

Mr. Percey: That's the system. I have a hard job myself figuring how you're ever going to regionalize this whole system. I just can't see it. I don't any way see how you can

do it. The problem I have is how California can produce milk cheaper than we can and keep increasing their supply. I've been to California. I've looked at their dairy farms. The only thing that I can possibly see in my mind is water is the big issue in California and under my theories of how it works out their water is subsidized a degree somehow and I don't know exactly how that all works, but water is what makes you able to grow alfalfa out there and turn around and feed it to cows without having any buildings and I can see a little advantage there. But I have a hard time figuring out how California can keep producing milk at these low prices and the rest of the country cannot seem to be able to do it. With that, I would like to thank the group for listening to me and enjoy my maple syrup when you get around to it.

Mr. Rutherford: Thank you, Paul. Perry.

Mr. Hodgdon: I would like to welcome you all to Vermont here—I guess we've all done that—and coming to hear our concerns. I'm Perry Hodgdon. I farm about 35 miles north of here in Randolph, Vermont. My wife and I operate a 50-cow dairy. We keep about a hundred head total, milk 50, and raise a full barn of young cattle usually. We market quite a few of our animals through sales and selling of breeding stock. We've always belonged to cooperatives and have tried to follow co-op ideas and work together to gain markets. The dairy business in my opinion needs a policy with stability. That's come out many times today. The price support program worked okay in my opinion until, well, I guess probably politics, depressed alternative job operations, poor prices in alternative crop production, tax laws, drawing "off farm money" to dairy, and a host of other conditions all came together favoring dairy which in turn created a surplus. The price support program as run has tended to stimulate production too long in my opinion and it also depresses it too long causing a surplus on one side and a shortage on the other. Twice in my short farming experience—I've been farming 19 years on my own—I remember two shortages when increased foreign products were allowed in. This, of course, permanently weakens our industry and I believe long range it lowers the quality of dairy products offered to the public and I intend to be a consumer at some point down the road, hopefully within 10 years, and at that time I'm as concerned from the consumer end as I am from the producer end today. Production has appeared to stabilize and with low milk prices farmers are still going out of business. I believe there is a possibility of an overkill in our dairy farms today. Tax laws have been changed, land values are moving up here in the northeast at least. Nonfarm job opportunities are good. It's my opinion now is not the time to take a price support cut again and I would ask each of you to contact Secretary Lyng and suggest he not drop the price support in October. I don't think that it is justified. We've heard other reasons so I won't go into those. I mentioned earlier farmers need price and policy stability. While no plan will achieve this to our full satisfaction, I believe it can best be accomplished by working through our present Federal Order System. Regional milk pricing could be accomplished adding regional price stability. Paying for milk on multiple component price rather than just fat and skim, a program long overdue, and one farmers in this New England area anyway have favored for sometime could be implemented.

This would give farmers proper signals regarding stability. And finally as time goes on, if it becomes apparent that production controls of some sort are needed these could be applied regionally rather than nationally and this would make them more effective. The Federal Order System presently is too slow and cumbersome. The dairy industry is at a crossroads where several changes should be made. We must find ways to speed up the Federal order hearings so that we do not lose the opportunities for change. My thoughts on milk pricing as it relates to the M-W are as follows. The M-W has worked satisfactorily over the years; however, now as the number of plants in the Minnesota-Wisconsin area decrease and other variables in individual plants "pay price formulas" make it harder to get a pure pay price, I think it's time we develop a new milk pricing plan. I believe it's time we develop geographical regions and have each region price its Class One milk independently. Class Two products that trade nationally would be tied to a common price. This has historically been a government support price. It doesn't necessarily have to be, but I would suggest probably realistically it might be. Milk promotion is the final area I would like to discuss. The dairy industry took a big step forward when it adopted mandatory advertising. We have long known the advantages of promotion. The 15 cents should in my opinion be increased probably by 10 cents. The National Dairy Board should be elected by farmers rather than appointed by the ruling powers. This is dairy farmer money being used to sell the product we make. We deserve the right to elect our own directors to the National Board. I predict if you take the policies out of this Board, within 1 year they will be working hand in glove with our present UDIA Board thus creating a more cost-effective promotion effort. And I thank you all for allowing me to voice my views.

Mr. Rutherford: Thank you, Perry. Are there any questions or comments? Charlie Williams.

Mr. Williams: Perry, do you view the Federal Order System as a method of steady process within a zone or one which is designed to move milk from the point of most efficient production to the point where you need it?

Mr. Hodgdon: In the future or past?

Mr. Williams: The present and future.

Mr. Hodgdon: Presently I see the Federal Order System as putting a floor under the price. I think it also means that any storable product will move across the country as economics dictate it will. This in turn will generate the storable product which of course is your Class Two that brings a lower price. It will stimulate production in that area. It will discourage production in areas that perhaps should be more Class One. I can remember 25 years ago my father telling me this area was going to be 85, 90 percent Class One because of the economics of producing milk in other areas. I didn't know whether he was right or wrong and I don't know whether he should have been right or wrong at the time. He obviously was wrong.

Mr. Aycock: Perry, do you have suggestions as to how the Federal Order System could be sped up on their actions?

Mr. Hodgdon: I'm not familiar enough with it. I've watched the actions for the last 20 years and realize that, unfortunately, that things move so slowly that a lot of times in the first place you're not encouraged to go for some things because by the time you get them the opportunity to move with them is lost and the other is that, you know, people just get sick of waiting for 2 years. When you're dealing in New England we have quite strong cooperative feeling, but we do have independents that also feel quite strongly toward their independence and as cooperatives try to make things happen. If they don't happen fairly fast, then you get criticized and it does cost money to try to move things in the direction you think would be best for the mass majority and so this is my concern that, you know, there are opportunities there, no question in my mind, but we are at a point in the next 3 or 4 years when many, many changes need to be made, and I think if we could put pressure in some way to make Federal order hearings move faster and perhaps take some of the politics out of it it would be some advantage to us.

Mr. Aycock: I have heard some of the same concerns in the southeast and that's why I asked here.

Mr. Elkin: In looking ahead to the next 20, 30 years, it's interesting to hear from someone that's going to be farming during that period. We're really addressing the future for people like you, and you strongly stressed the importance of stability. I think that the dairy farmers do operate for stability. That's why they're dairy farmers rather than beef producers or vegetable growers. Stability is important. I agree with that. However, the present Secretary of Agriculture says one of the problems we have is too much certainty. I guess what I'd like to know is what do you mean when you say that you would like a great deal of facility? Can you briefly tell us what you're talking about.

Mr. Corse: Basically, I think the ability to be able to predict at least to some degree, if there are going to be Federal programs in the dairy industry, what they're going to be at least a little further ahead than we've been able to in the past—in particular, the diversion program and the whole herd buyout. My impression is, and we didn't participate in either one of them, but that the rules had hardly got written before the deadline passed and it's those type of things that are a real problem to trying to plan at all ahead when you have a program that you can't anticipate a way in advance and try to decide whether it fits what you want to do. The other thing would be some type of stability in how the pricing was going to work, maybe even to the point of removing it from politics so that the price wouldn't go up and down every time Congress rewrote a farm bill.

Mr. Elkin: Are you asking for some type of indexing or formula?

Mr. Hodgdon: Can I comment on that? There's a big difference between stability and policy, and I think to have a known policy with some stability tied to it is very important. In other words, we know where we stand for the next couple of years. We may not like it and I urged you to recommend that we not take this price cut in October and wait and see what happens, but what actually happens in my judgment is it's going to be a political move instead of a realistic move. In other words, I don't believe that they really believe that

there's going to be a big surplus next year if they're reading the figures correctly. They predicted a lot bigger surplus than is here. We've pulled it down further than we expected and did better in promotion and if the economy continues to improve as is projected, then you'll see consumers spending more on milk and more job opportunities off the farm which means some of our people leave the farm voluntarily and these factors all come into play and it's very easy after you've spent too much money, after you've been conservative, and after you've been short of milk, to want to push it and make sure you've got plenty in the future. This is a real concern of mine. Every time we get short of production nobody suffers but the farmer because they just bring those imports right in by the barrelful and it just licks you both ways.

Mr. Rutherford: Fred Butler.

Mr. Butler: Perry, you indicated that you supported the promotion program. If we could get politics out of it, do you think it would be more viable? Do you have a working solution that would get politics out of promotion?

Mr. Hodgdon: Those are my thoughts. I have no solutions. I wish I did have. I really don't hold out much hope for doing that. It is my feeling—I worked very hard to get this mandatory promotion. I felt for years and years and years that we were missing a lot of opportunity and if you follow promotion and new developments that are happening, the research that's going on, very good things coming out of the dollars that we've been spending and now that we're spending more there's more potential out there. We can turn this whole health thing around. The whole cholesterol thing could be turned around for, I believe, for maybe 85 or 90 percent of the people in the country. Just bring out some of the strong points for people in the dairy industry and it helps sell a lot more milk but you've got to have dollars to do it and as long as there's hard times on farms, there will always be hard times on farms. I've made a lot of money farming but I've done some sweating, too, and had some short years as well as some long years and so I'm like Paul Percey, I hold no regrets to the dairy business. The reason I'm against a quota system of any kind is that 19 years ago when I started farming if this country had a quota system I never could have started and I believe that's probably the biggest deficit to any quota system of that nature. You know, it stifles the ability for anybody that thinks they want to take the ball and run with it to do it and I object to that. I like free enterprise and I like competing one on one with my neighbors in the dairy business to see if I can make just as much as anybody else. I like competing nationally and regionally to try to make a product as cheap as anybody else. But I do feel that down the road at some point it may become evident that we do need a supply management program of some sort. I haven't seen one yet that would suit me. I think given due time I could develop one but I'm not sure of it. Every time I try while I'm milking I always run into a stone wall and get to the end of milking before I get it done.

Mr. Rutherford: Bob Foster.

Mr. Foster: When you were asked what you'd change to improve the promotion program, it's been suggested that by

electing the directors, it would take some of the politics out of it.

Mr. Hodgdon: Absolutely. Farmer elected directors, but if you understand the law and the way it's written, that's not a viable option and that's why I answered the gentleman the way I did.

Mr. Butler: We've talked a lot about promotion, but we haven't brought up this aspect of it. We were talking about increasing the assessment from 15 to 25 cents per hundred-weight. That's probably \$2,500 a year that a farmer would be paying for promotion on a million pounds of milk. After 2 years of being assessed at a little over \$200 a month for promotion, don't you think my memory is going to be short and that I'll want to get rid of the promotion assessment because I need the money.

Mr. Hodgdon: There's a good chance that might happen. Through proper education I don't think it would. You'll find if you lose 25 cents that comes out of milk check your blend price would also shrink probably 50 cents to a dollar. You wouldn't see it up front but you would feel it just as hard on the farm and so with proper education I don't think the situation would arise that you're speaking of. That's my assessment of the situation.

Mr. Rutherford: Fred Douma.

Mr. Douma: Perry just spoke about pricing and so did a few witnesses today. One of them brought up the proposed finding in the new Great Lakes Federal order and that's protein pricing on Class Three only or Two and Three. What is your idea of component pricing?

Mr. Hodgdon: National?

Mr. Douma: We're talking national.

Mr. Hodgdon: I know what I think would work in New England. I think protein pricing and butter fat is probably the answer for national too at this time. I think it could be changed if in fact after it was put into place we realize that there were some advantages or disadvantages to certain segments of the business, the cheese or such.

Mr. Douma: If you look at New England particularly with 55 percent Class One utilization, it appears to me that protein is really only the advantage in cheese. In fluid milk it's the total solids that make up the flavor. Lactose plays a very important part in the taste.

Mr. Hodgdon: Butterfat, too.

Mr. Douma: It's an argument between total solids or proteins. Nationally, probably 40 percent of the total production goes into cheese. But for the remaining 60 percent, it's really irrelevant whether it's protein or total solids.

Mr. Hodgdon: Except for the next 10 years it's projected that cheese will continue to move up and be the strong seller and so if you believe those figures, then you'd realize that within 10 years and it takes a period for protein pricing, the effect of protein pricing to get back and work to improve the solids. Some of it can be done through feeding and some through breeding. The breeding, of course, is a long-term program and the feeding depends on how fast technology comes along that tells us what boosts protein and total

solid in production, but I really think, I still think that protein and butterfat are the two variables that should be paid on. I would have no objection to paying on total solids if that were what the mass majority decided, but it appears to me now that the easiest way to do it is on protein and butterfat and that certainly would fit the New England market all right. Protein is really the thing. Protein or calcium is the thing we have to sell and the dairy industry in my mind and 5 years from now we'll see, assuming that the promotion efforts continue in the same vein that they are, we'll see strong calcium advertising and the consumer will be more aware of the calcium advantages through a natural source in milk and milk products than they have been in the past and so if we are in a position to promote and sell calcium then we'll have a better opportunity.

Mr. Douma: Are you saying that you can carry component pricing into your fluid market, which is 55 percent? Who's going to pay for more protein for fluid?

Mr. Hodgdon: You've got to do that through minimum standards, I believe, and you're way ahead of us there in California.

Mr. Douma: The two go together.

Mr. Hodgdon: Absolutely.

Mr. Douma: You can't get either one without the other.

Mr. Hodgdon: In fact, there are three components to component pricing program and the third is quality and all three of those improve both the flavor of milk, the shelf life of milk, and the consumer's acceptance of milk so there's nothing but positive in that whole package.

Mr. Eikin: Gentlemen, thank you very much. Next we will hear from Debora Erb and Lorraine Merrill.

Ms. Erb: First of all, we've heard some sad testimony and some optimistic testimony and I'd like to say that the most optimistic thing that's happened in the dairy industry is you people. I think for the Congress and Senate to ask for some suggestions for long-range planning I'm very optimistic that you guys would come up with something everybody likes and could live with and that's the most optimistic thing for the dairy industry right here. Thank you.

Mr. Rutherford: We hope so.

Ms. Erb: I tend to say "umm" a lot so I'm going to read mine. My husband Doug and I are dairy farmers in northern New Hampshire. We have incorporated an 85-cow registered Holstein farm with his parents. We crop about 60 acres of corn, 130 acres of hay with an intensive pasture program of the tillable acres. Our herd average is 19,300 with 719 fat. We live in an area just starting to experience urban growth. Doug and I are very active in both civic and agricultural activities such as church and town committees, the Agri-Mark Dairy Cooperative, Agway, and Farm Bureau. We see our future to be in the dairy farming industry but look at it both as a successful business and a way of life. The existing programs are not at fault in the present situation but the way they were mismanaged during the past decade is. These programs should be the framework for any future program. The points I wish to address are as follows: The price support system, the federal market orders, the dairy

promotion and research program, and the supply management plan. The dairy price support program was never intended to serve as the method of pricing milk. It was created for the consumer to have a guaranteed supply of good quality milk without the wild fluctuations in price due to the unavailability of milk during some periods of any given year. If there is no mechanism for balancing the market, dairy farmers will only produce to the lowest amount needed. Given the 2 years needed to get a cow to the production stage, there would be a huge lag time when milk would be unavailable in the marketplace. The dairy price support program was not created to dictate the price of milk. The last 8 years the market price of milk has not moved off the support price. Thus, the support price has not reacted to changing technologies and abilities to produce milk but was used as a political pawn. The dairy price support mover is fundamentally a sound program. The price support program should be redefined to reflect current and immediate future market conditions. It must be capable to react in a short amount of time to rapid technological advances. Any profit should come from the marketplace, not the price support system. This program should be the framework for any future dairy programs. The Federal Order System has worked well over the years to maintain equality in the pay price to farmers. Through this Federal Order System regional differences are recognized. In order to continue to maintain a viable dairy industry in all sections of the country the current Federal Order System should be maintained. The dairy promotion and research program should be continued in any future programs. We have seen the benefits to increased advertising by the increased consumer demand for our product. By the mandatory national 15 cents promotion fee all farmers are helping to promote everyone's product. Research for new products for increased consumption can only help. A free enterprise system is what America was built on. Establishing nonvoluntary supply management programs would make it harder to make good business decisions because of outside control on our business. The size of a dairy farm does not define whether or not it is a family farm. In many areas it has been a sounder business decision for sons and daughters to come home and enlarge the family farm. A nonvoluntary supply management program would make the necessary increase in volume impossible. I have two sons and a daughter who should have the freedom to make this decision. We have had two voluntary supply management programs with a proven track record. Both the dairy diversion program and the whole herd buyout program have saved the taxpayers substantial amounts of money as planned. These could be used as standbys for supply management plans, then reverting back to the price support system. My father-in-law is a veterinarian whose college professor always said if it ain't broke don't fix it. In conclusion, I feel the current programs do need slight modifications but are good, sound programs for providing price stability and ample supply in the marketplace. Thank you.

Ms. Merrill: I would like to second Debbie's comment that I find the fact that we have this National Dairy Policy Commission created by Congress to look to the future direction of dairy policy as one of the most positive steps because the future is what we really need to look at. I'm Lorraine Stuart Merrill, by the way, and my husband John and I own and

operate Stuart Farm, a 270-acre, 180-head dairy farm in Stratham, New Hampshire, in partnership with my sister and brother-in-law. Like so many northeast dairy farms, ours has a complex history of family ownership. My parents and an uncle and aunt bought our present farm in 1961 after Route 495 was built through the middle of my family's farm in Massachusetts. The half share of our farm which was held by my aunt and uncle is now held jointly by the two of us couples operating the farm, and I think that's a little bit of a comment on the direction that the dairy industry has taken, and in the meantime the development rights were sold on that farm significantly reducing the value of the real estate. From my parents we rent the other half of the farm and lease their one-third interest in cattle and equipment. My father has retired from the business but continues to work for us on a part-time basis which he wishes could be a great deal more part-time. In addition to being a partner in the dairy farm business I'm also a freelance agricultural journalist and have researched and written articles on dairy policy, economics, and trade both here at home and in Europe. And as a regular feature for *New England Farmer* I visit farm families all over New England for interviews. And on the basis of these experiences I really think that our experience at Stuart Farm is not terribly different than many other well-managed family-operated dairy farms in New England. Our dairy happens to be located in New Hampshire's fast growing Seacoast region. Fully one-third of the commercial dairy herds in our county, Rockingham County, went into the buyout and we've had a few others go out of business independently of the buyout since then. The high real estate values and the pressures of growth and increasing population have combined with the financial pressures that all dairymen are experiencing. Our attitude has been that as proven managers of an established dairy business that if we can just hang on through the difficult period we should be in a very good position in the future. But when we consider the tremendous capital investment, the loss in equity that we've suffered with the fall in prices of dairy cattle and equipment recently, the long hours at some of the most hazardous work in the United States today, one can't help but wonder about the income which comes back to a family in this situation, even on a basically pretty successful operation. With our two sons approaching high school and junior high we realize we have college educations to pay for in the future and we need to plan for that as well as planning our business decisions. In fact, because of the acute labor shortage that we've been experiencing in our area, our 14-year-old was working 30 odd hours a week during school this last year. For the future of the dairy industry in the northeast, we just have to have dairy policy which allows reasonable stability for planning, long-range planning, and acknowledges regional economic differences, and that's the point that I'm going to emphasize today, just to try and give those of you who are not from the northeast a feel for the differences in the economic conditions that we are working with here. I do realize that many other areas are experiencing similar conditions, parts of the southeast, and locally in other areas. There are three major problems directly related to the region's economy and geography. The first is the high real estate values which is really a double-edged sword. It's a real blessing to the retiring farmer who wants to sell out and

make a very nice nest egg, but for young farmers trying to get started it's making it close to impossible. This has really the greatest impact on young farmers who are, as several people here pointed out, the future of agriculture in this region. The second is the shortage and high cost of labor. With a booming general economy in this area labor is in short supply and expensive. Many high school students in our area are making \$10 and more an hour at part-time nonfarm jobs. Many of us are making changes in our operation so we can get by with less labor but this is very expensive. We're talking more capital. The third is the whole set of problems stemming from regional development and urbanization. This growth creates more difficult conditions for agricultural production. It increases costs in a number of ways and we have reduced support from what is a shrinking agricultural community and agri-business support system. People are moving into the condominiums which are being built on two sides of our farm because they like the country atmosphere and they like looking at the nice green fields which they know will stay there because the development rights have been sold on our farm. But when we spread manure we do hear about it. Many states have appropriated millions of dollars in the northeast to purchase development rights of important farmlands and to protect the landscape and the agricultural bases in their states, and other steps have been taken also. I really believe that the governments and the people in the northeast have demonstrated time and again they want to keep a viable agriculture in the region. More is needed than just selling, paying for the development rights. We also need to be making a price for our product that will cover our costs and allow for a reasonable profit. As one farm realtor and dairy equipment dealer in the state of Maine told me when I was interviewing him on an article on the farm real estate market in New England, dairy farmers are not receiving enough for their product to pay for what they need to produce that product. Our farm has received recognition. We have a high producing herd and a very stable financial history. Yet the purchase of that half of the farm—without development rights—has saddled us with a mortgage that has really squeezed us. We have undertaken a thorough business analysis—we have always treated this as a business endeavor—through the Federal Land Bank and Farm Credit in Springfield, and the advisor who worked with us told us that our income per cow was in the exceptionally high category and we were just doing an outstanding job, and he said but how much do you think you can ask of those cows. Every which way that we looked at things pointed to expand. We don't really want to add to the surplus out there, but just like everyone else we considered it. What we found was that no matter how many cows we added, in the end our margin came out just the same. So we're not putting on any more cows. We're not adding any further to that surplus. Dairy has been the dominant agriculture in much of the northeast for many years and much of our land is best suited to dairying. The region's producers provide a year-round supply of a highly perishable and important food product in which our consumers have confidence. We also provide much of the characteristic landscape on which the northeast's sizable tourist economy and quality of life depends. We have not been responsible for the national milk surplus. We have participated in government supply control

programs and we have taken the repeated price reductions and milk check deductions. Many have gone out of business in New England and most of us who are left, certainly those of us who are still paying for our farms, are living off our depreciation. Farm families I have found all across New England can't afford to make that transition from one generation to the next. Families are really struggling with how can the parents retire and how can those children who want to stay on the farm buy into it. They cannot pay for that equity which represents the parents' lifetime work and their entire retirement in many cases. They can't pay for that by producing milk. At the same time we have seen a tight market here in the northeast and yet the prices have been kept down, in effect, artificially. I believe, low and we producers have seen the region's milk dealers exploiting the situation much to their own advantage. Consumer prices have not gone down at all and some dealers have made close to unconscionable profits during this period which has distressed many producers. So for these reasons I'd just say that it is time for our national dairy policymakers to look at a regional approach. I don't envy anyone trying to develop that. But the problem here is going to be too little milk and too few producers. Thank you.

Mr. Rutherford: Thank you, Lorraine. Charlie Williams.

Mr. Williams: Lorraine, I've been hearing something today that puzzles me and that is that the dairy farms they have in New England seem to be getting to be very, very high priced, \$10,000, \$12,000, \$15,000 an acre and higher. It surprises me that someone doesn't take that as a grant from heaven. Down south in Florida, it started in Miami. Farmers went down there in the thirties and bought a little tract of land. They got it for a \$1,000 or so. They moved on to the north and bought maybe 1,000 acres cheaply again. And then they passed on to their children who bought several thousand acres and that's expensive. Why don't you guys come on down south with your money?

Mr. Rutherford: Help keep Florida green.

Mr. Williams: Why don't you move?

Ms. Merrill: There have been some. Anyone who's selling farm real estate in northern Vermont, for instance, they'll tell you that most of their buyers when farms are sold as farms to continue in production are sold to dairy farmers from Connecticut and Massachusetts who have sold their farms for a bundle and then can move north and pick them up at considerably less money.

Mr. Rutherford: Along that line, what is your feeling about buying programs that some states have? I know in New Jersey and Pennsylvania they're proposing development rights. What's your opinion?

Ms. Merrill: I feel that that's a help. As I said, our farm the state did buy the development rights on and my parents rather specifically went into that program so that it would bring down the value of our real estate so that the younger generation could afford to get into it and produce milk. I certainly support that, but it's so expensive. Even New Hampshire is now going through a process of buying more development rights and they're really finding they have to limit themselves more to the northern part of the state be-

cause otherwise they would spend all that was appropriated in a very small area. They are realizing that it's a good idea to start protecting some of the land up north also.

Mr. Mertens: How long have you had the program?

Ms. Merrill: I believe 1979 was the first year that the purchase was made which was when our farm went into it. It was a little later than Long Island and Massachusetts and some of the other areas.

Mr. Rutherford: Jim Holts.

Mr. Holte: You've talked about the high land values and high debt. If it isn't too personal a question, what would it cost for 160 acres of tillable land or 250 acres of tillable land to operate a dairy on?

Ms. Merrill: It varies so tremendously with the specific location. It's really more a matter of the location of the land than the quality of the farmland, for instance, because we're really talking about land values other than agricultural production values.

Mr. Holte: In a situation where the development rights have been sold. For land which has no development rights, where they've been sold to your state or whatever, what real costs do you have in your fixed land values?

Ms. Merrill: My specific—

Mr. Holte: I don't want to get personal, but in general.

Ms. Merrill: We have a \$2,000 a month plus mortgage on half of a 270-acre farm. That's, you know, not a lot of land. It includes buildings.

Mr. Holte: On land values you're talking about a 1,000 dollars an acre of land, \$2,000, perhaps.

Ms. Merrill: Probably a little more. Without development rights they say that land in New England is in that \$1,000 to \$2,000 an acre range. Just land.

Mr. Holte: That's what I was interested in.

Ms. Merrill: But, of course, most of the land available has the development rights intact. And it's all a small percentage that has the development rights bought on it, so—

Mr. Holte: So the high cost of land, even though the development rights have been sold, is what really places a high fixed cost on your product?

Ms. Merrill: Yes.

Mr. Holte: You have very high fixed costs in producing milk?

Ms. Merrill: That's right.

Mr. Rutherford: Thank you. We appreciate your words and your testimony. We're going to need a lot of help selling the program. Thank you.

Our next witnesses are Tim Bryant, and Albert Savage.

Mr. Savage: Good afternoon, the time is getting late so I won't take up much of your time because a lot of what I am going to say is what has been said already. But my name is Albert Savage, I own a 168-acre farm in Weston, Vermont. I milk 46 cows in conjunction with my son who by the way is in hopes to take over the farm some day if he can afford it. We raise all of our own roughage. We purchase our concen-

trate so you might say that our profit is directly tied to the fortunes of the grain farmer. I feel that any future dairy policy should address the regional differences that exist within this country. I think it can be broken down. Now, I realize you are going to have small regional differences within areas, but my feeling is it can be broken down into five major areas—the Northeast, the Southeast, the Midwest, the Southwest, and the Far West. I will take a point, as an example, that a 40- or 50-cow dairy farm in the Northeast is as important to the Northeast as a 1,000-cow dairy farm is to California. And also, the Dairy Herd Termination Program, I have been hearing all day that this worked, yes, it did work, but it worked too well in some regions and it didn't work well enough in other regions. Another thing I have been hearing all day is imports, something that bothered me right along. My theory is all imported dairy products should have to meet the same quality inspections as our domestic production, and these quality inspections should be at the importers' expense so theoretically, if some importer wants to import a boatload of cheese from say Europe, the supply of milk to produce that cheese should have to be inspected by U.S. Public Health inspectors before that cheese is allowed in. And the importer should be billed the expense of those inspectors. That would raise the price of those imports up where they couldn't compete with us in this country. And also, my third point, I have been reading your bulletin this afternoon, what you are charged with doing. Article Five in your charge to the Commission rather intrigued me. The likely effects of those technologies which refers to the four before it on milk production, specifically will the surplus occur. I would like to say yes, it will. If bovine growth hormone comes into wide use, you are going to see such a surplus of milk in this country that you never dreamed possible because with our health-conscious public, all you got to do is say that milk is produced by a synthetic hormone, they are going to stop buying it overnight. Just like that. So I think I have taken up enough of your time this afternoon and I will turn it over to my colleague, Mr. Bryant. Thank you.

Mr. Rutherford: Thank you, Mr. Bryant?

Mr. Bryant: Members of the Commission, like everybody else who is and has been here today, I would like to welcome you here to Vermont. I would like to commend you sitting here at this late hour. I know how tiring it can get sitting up here all that time. My name is Tim Bryant. I have always been a dairy farmer and I live in Pawlet. I milk about 80 cows, about 1.2, 1.3 million pounds a year. I also serve on the Eastern Milk Producers' Board of Directors and as I said, I have been involved in farming all my life with the exception of 4 years out for college. I grew up on a farm and have owned my present farm for 17 years. Over the years, I have seen alternating good years and bad years but not until the 1980's have I seen farming continually on the down-trend. It has been very discouraging to see so many farmers going out, good as well as bad. This is not only because farmers are losing money but because we are just fed up. They feel there must be a better way to make a living or at least maybe have a little more time to spend with their family. In the past, no matter how bad I may have thought the farming economy may have been, there has always been a certain amount of stability mainly because of the Dairy Price

Support System. I always knew how much money I would receive from my milk check in a given month because I could budget and I could budget that money. Therefore, I think it is imperative that the Dairy Price Support System must remain in place. I think the 1985 Farm Bill has done an excellent job as far as it went toward bringing the surplus back in line nationally. Milk supplies nationally seem to be coming into proper balancing with the commercial demands and this has been done without making the drastic price reductions as the present administration had wanted. However, I think this program needs to go a step farther to recognize that there are regional differences in the supply demand relationship. I don't think it is right for a region such as the Northeast which is experiencing a tight milk supply and it is not relying on government programs to remove the milk from the marketplace to have to pay for removal of surpluses from other areas. If a region is producing more milk than commercially removed in the market, then this region should have to foot the bill. If the region wants to overproduce, let them, but I will reemphasize, let them pay the cost to remove that supply. Don't make every farmer pay for it by further reducing the price support to every farmer. I know a regional program can be implemented. It may take time, but it can be done and I think it can be done effectively. As a farmer in the Northeast, I don't think that I can afford to continue paying for price cuts. It's already close to the break-even point. I know there are people that will say that if you can't make milk for what the price is, you shouldn't be making milk. I feel here in the Northeast, we need the milk to supply our market and I feel that the pay price should reflect the cost of that reduction. I'm not looking for handouts but I honestly feel with such supports and that exist here, we should be able to demand and get a premium price for our milk. I certainly don't want to see the Northeast dependent on distributors to supply our needs. I fear if we continue to drive farmers out of business, this will happen. Once a farm goes out of production in Vermont, it will seldom ever go back into production. Briefly, I would like to comment on my feelings on the future of the policy. I feel the door has been left open for future voluntary supply management programs. This could be in the form of another termination program, or possibly it could be such a plan, an incentive price for a dairy cow or having the programs purchase heifer cows. Through the Diversion Program, Dairy Termination Program, farmers know that they would support programs that would at least temporarily get out of trouble. I feel that in the future, we should consider doing it again. I would like to again thank you for the giving me the opportunity to appear before you today.

Mr. Rutherford: Thank you, Tim. Jim Holte?

Mr. Holte: Tim, I wanted to ask you a question related to the regionalism. That's one of the topics we have heard repeatedly today and obviously a very many of you are concerned with it. You mentioned that the areas that produce more milk than they consume should be responsible for the costs of the surplus. I think you also mentioned that you believed in being paid at the cost of your production or being reimbursed at something related to the cost of production?

Mr. Bryant: Our cost would reflect the cost of our production, right.

Mr. Holte: In the situation of Wisconsin or California where we do produce more milk than we consume there, aren't we entitled to that same return of cost of our production? In the case where we were to bear the entire cost of taking care of that surplus milk, obviously our price would take quite a large tumble. Don't you think that we might be entitled to the same reflections to the cost of our production as you would be?

Mr. Bryant: Yes, I do, but if you are having a surplus, somehow you have got to bring that surplus back in the line. If we had made a surplus in the Northeast, our price would drop to reflect that and I guess it is hard. You point out, I am making a double point there, I am saying that we should get what it cost to make it, on the one hand and if we have a surplus, we shouldn't but as I said in the Northeast, what I am referring to if we have a tightening of the milk price and there is definitely a need for that milk, it will be reflected in our prices. If you didn't have enough to produce the milk we need, the RCMA was floating around here, and that's one prime example of the way to do it if we can implement it.

Mr. Holte: If these surplus areas are made to handle the cost of disposing of that product, is there any reason why we cannot convert that to our product and have it shipped into your market and then you, too, will be in surplus with us?

Mr. Bryant: That's probably what will happen. I sympathize with your problem and I realize there is a big problem out there. It would happen with transportation the way it is, you know; we can move mountains today is what it amounts to and that is one of the problems we see here in the Northeast.

Mr. Holte: What I am trying to point out is that I do not quite see that this is a regional problem, with the transportation available in this country. Regionalism tends to fall apart when we start to discuss it in that respect.

Mr. Bryant: It does. When you sit here knowing that we need milk in this situation and you are making a surplus out there and it's easy for us to sit here and say well, there is the cause of the problem. And that's what we are saying and it's probably, as you say it's a national problem. I realize it's a national problem but we feel that with the tightening of the price in the Northeast, there should be some way to ease that tightening. And I think, you know, money will reflect that to a certain extent.

Mr. Holte: Much of that tightening might be due to a whole herd buyout and I think you and I both have paid for the cost of that?

Mr. Bryant: Again, that's where regionalization should have come in, I feel. If they should have, when they took that into account, said well, this region is already almost a deficit area. We are only 2 percent over at the time, we should say, we should not hit this as heavily as with a buyout, take it from the areas where you have a larger surplus.

Mr. Rutherford: Plus I think we have to keep in mind that the tightening of the market is also a seasonal swing.

Mr. Bryant: Yes, but we have seen last fall and this fall more severe tightening than in the last fall and the tightening in the spring, too.

Mr. Savage: I have one more thing to point out to our worthy Commissioner from Wisconsin on moving products from one area of the country to another area. Transportation is going to be an ever increasing cost and I have been told time and time again that as of right now, a cheese plant operating in New York State serving the New York City market has a 3-cent per pound advantage over Wisconsin cheese coming in just due to the transportation. So you start moving products from one end of the country to the other, transportation is going to eat up a big portion of that.

Mr. Holte: But I would question whether the 3 cents is really a very large percentage of the value of that product. You are actually at 1 1/2 percent and that is not really a large amount.

Mr. Savage: But we all know that OPEC eventually is going to get their act together and you are going to see transportation costs in the next 20 years skyrocketing.

Mr. Holte: That is a matter for debate. That's very possible.

Mr. Bryant: I would like to make one further comment. We have heard a lot on the quota system. I have a big fear of that personally because I feel that in the Northeast as you all heard today, we have extenuating circumstances. When a farm goes out here, I mean it's out for good. I mean with the ability to sell your farm for astronomical prices which is what they really seem to me, when you take a farm that for farming it's probably worth \$100,000 and sell it for a million dollars to development rights, if you take that farm out of production, it will never go back into production again. And that's what's going to happen if you suddenly (U-T) this national quota system in again. They are going to say unless it's regionalized, it's going to have it that way. I don't see it that way so the Northeast would have to cut back by 10 percent and say 3 years down the road, well, we have got to increase by 10 percent. The Northeast is allowed to increase by 10 percent but it would never do it again. It will just never happen. You can't call those farms back in production after you have sold them for ten times their value of the farmland.

Mr. Rutherford: Jack Laurie?

Mr. Laurie: I think one of you suggested that a regional breakdown would consist of five regions?

Mr. Savage: I had.

Mr. Laurie: One of the things that I observed early in the hearings was that at some point in time, this group would address the issue of fundamental regional differences. Some are economic, some are geographic, and probably more are philosophic, but they need to be addressed on a long-term basis. I have heard more discussion today about the need for regionalism than in all of the other hearing locations combined. And you know, when you stop and put it in the perspective of today's economy, I need to know how that can effectively be addressed. We are in the process of talking about some multilateral trade agreements as well as some bilateral trade agreements with our neighbors to the north. By doing so, we are saying, "Let's not just break down regions but let's break down some of the world barriers that we have had in the past." So if we are really sincere in this country, shouldn't we try and adopt a program which would not build up trade barriers within our country like the

Canadians have in theirs. Wouldn't the development of regional barriers really be moving backward? We have also heard testimony from individual producers who said, "We need a program for those people who have contributed to the surplus, but not for me because I haven't contributed to the surplus. I still milk 40 cows and I did that 40 years ago. I am not the problem. It's all the rest of these dairymen who are the problem." You can draw it right back to state boundaries. If you develop a Midwest region, I know that Irvin is a lot bigger part of the problem in Wisconsin than I am in Michigan so maybe you ought to leave me out of that region and we will have a region just for me. My point is, are we really being progressive in addressing a regional system and if so, and if that's the route we choose to go, where do we draw the line? Where do we stop the separation?

Mr. Bryant: One comment I guess I think is that the orders went into place at one time. Before that there was no orders and somebody had to draw the line there. I mean how do we distinguish Order One from Order Two here. We don't really. I mean it depends on what we have, you know—used to be Vermont and points either were separated from New York State. I mean we. You know, sacrilege in bringing New York milk into Vermont and now we are going way out in Syracuse at times to bring milk into Vermont on Order One. So I mean, you know, if you set a rule, it isn't entirely hard. As I said the orders were set and they have been viable for 40 some odd years and they work and it's my way of thinking it could be done and it could be made to work. I am not saying it's perfect but, you know, there is a possibility.

Mr. Rutherford: Fred Douma?

Mr. Douma: In 1970, California was 70 percent Class I utilization. The support price for butter in California was 5 cents above the support price for butter in Chicago in order to attract butter to the Westcoast. As call increased and California's manufacturing got in the butter business, Class I utilization fell below 50 percent. All of a sudden our support purchase price was identical to Chicago. Here we see the same thing in your New England states. About 2 years ago, you dropped the 3 cents surplus for butter that you had. Obviously USDA said, "You know, the northeast has a sufficient amount of butter and probably are even a little bit surplus so there is no longer a difference between Chicago for a freight." So I would have to say the northeast also is contributing to the total surplus of manufactured dairy products.

Mr. Bryant: But you are making a point for me or at least I can construe as you are saying, we are making a surplus, penalize it for you which is what we do. We drop the price by 3 cents, right, so in effect, your region is paying for the cost of overproduction by doing it.

Mr. Douma: Where the whole Nation is at the same purchase price for products in whose creation we have all shared equally?

Mr. Bryant: At one point in time we were making a premium for it. We said that isn't right, they are making too much, so we dropped this back.

Mr. Douma: Maybe we have to drop everything some more.

Mr. Bryant: Well, I hate to see that.

Mr. Rutherford: Irvin Elkin?

Mr. Elkin: Yes, we have heard a lot of discussion on regionalization. It is a dilemma. It's hard to regionalize national programs. During the Diversion Program, there was language that would allow the Secretary to exempt areas that were short. The southeast was short. The southeast dairy farmers said that they did not want to be included in the program. They wanted to go out and they did. So it's hard to regionalize. The other reason it's hard to regionalize is because every state has Congressmen that vote. Some states like California have a lot more than others and if it's not viable, they won't vote for it. I have made this speech many times coming from Wisconsin. I question why you want to go with voluntary programs. Go with the mandatory full participation. Wisconsin is not good at voluntary programs. Every time we have had a voluntary program, participation is 25 percent less than other areas where they are already short. Wisconsin doesn't volunteer. You take California, take off 5 percent, you have got a lot of milk.

Mr. Rutherford: We are going to volunteer you for 20 percent next time. What Irvin was saying is right. That is the problem because farmers started looking at the economics and when you have low fixed costs and higher variables and you come out with a program such as a diversion or buyout, who wants to get in. It's the southeast and the Far West and the lower areas.

Mr. Aycock: It goes a little deeper than just saying the northeast wants to participate because when they look at their cost of production, they figure that their price support should have been higher to begin with. Therefore, since he got the same price support that they have in the other parts of the Nation, then maybe it's not economically feasible for him to stay in business so he decides he will get out.

Mr. Rutherford: That's true. Dick?

Mr. Shade: One thing that has made our country great is that Wisconsin and Minnesota have the natural advantage because of climate and soils for producing milk. Midwest has the economic advantage of producing corn and soybeans. That's what really makes this country great in agriculture, lack of artificial barriers. And I would hate to see the trend go towards artificial barriers. In your position, you have some economic advantages. You are close to the Boston market. The Minnesota, Wisconsin people don't have that kind of market advantage. We have got long distance of transportation. To put up artificial barriers and not recognize the economic advantages that exist already would be a mistake. I think we should think it through very carefully before we alter that.

Mr. Bryant: Aren't we, in fact, if we can get RCMA into this region though, aren't we putting up an artificial barrier with that because we are saying that region can have a premium whereas the rest of the region can't, whereas the Southwest can put up a premium, the southeast, they get a premium and, you know, somebody defining that. I mean you know, who is it to say we are the better region or not the region. You know, we can look at it any way and say well, it needs modification but not in the extreme. I don't want to. Demanding quite a lot, if you can do it with a regional organization, go ahead and do it.

Mr. Elkin: When you are doing it on a regional basis, not national.

Mr. Rutherford: We have other people that want to talk. They are going to kick us out of here at 5:30.

Mr. Laurie: Mr. Chairman, I know RCMA leads to overpricing in a form of a super pool program of some kind, but what in the world does RCMA stand for?

Mr. Rutherford: Regional Cooperative Marketing Agency.

Mr. Aycock: Well, that's not a super pool, is it?

Mr. Rutherford: It's a Federal pricing to set an order prior in the Class I pool.

Mr. Aycock: You do pool your milk.

Mr. Rutherford: All right. Cliff Schumacher?

Mr. Schumacher: I have just one question on this regionalization. You fellows feel that you shouldn't have to participate because you are short of milk. What if we said that we don't want to attract any milk into this area so we will set your price at \$8 and in the Midwest we want to attract it so we will set the price at \$40 out there? How would your farmers accept that fact?

Mr. Bryant: I can't speak for the rest. For myself, I think personally I would have liked it because I don't want to see the farmer go out of business here.

Mr. Schumacher: What would have been their reaction?

Mr. Bryant: They probably would have been upset. It would have accomplished what I would have liked to see accomplish. I would taken the \$40. It would have been crazy not to do it for the \$40. At \$8 you would be crazy not to go out. How sure, I am sure the reaction of our producers out here wouldn't have been the same as yours. Of course, a lot of producers didn't ever expect to go out anyway. I am going to put in a bid for \$20 and it will never hit and it did so they went out.

Mr. Rutherford: Did you want to comment?

Mr. Savage: I was just thinking if we had a minimum Class I and a minimum on Class II, just to truck, this trucking would take care of all regions anywhere. That is my opinion.

Mr. Mertens: We are not going to ship fresh milk back to Chicago. He is going to ship it to Wisconsin too easily. There is one, your regional protection comes from your Class II. On your hard products it's up for fair game because we are using the Class I or that price to try to protect you. It isn't going to work in getting your Class I out.

Mr. Rutherford: Gentlemen, thank you very much. We appreciate your staying and giving your testimony. Brian Davis and Lee Light, are they, either one, here? All right, Leo, I am not going to say the last name. You are going to have to tell us your last name. Is it Letourneau?

Mr. Letourneau: My name is Leo Letourneau and I come from North Irasburg, Vermont. I have been trying to farm. I have been a farmer all my life, and I have been trying to go on my own for the last 8 years. I went to the bank a few years ago and said I would like to farm. He said well, what do you have for money; I don't have any. Well, he said with your cows and machinery maybe we could talk to you. So I

worked in a machine shop and supported my family and raised 30 head of cattle from calves and got all my machinery and tractors all paid for, went back to the bank 3 years later and they moved the end on me. And so they say what you got is fine but we need \$50,000 more. Well, I knew farming was bad at that time so I couldn't milk cows. I had 18 cows getting ready to calf so I had an auction. So 3 years down the road which is today, I have got 17 cows ready to calve and I have got five kids at home and September 1st I am going to start shipping milk. And I don't own any farm. I lease all my farms. I lease five farms. And I got four kids that want to go into farming, one I know wants to go to college. Well, I don't know. She started 2 weeks ago. I got a letter from the counselor from school, he said I want to see you. Well, all the courses my older one wanted to take, she is in tenth grade, she dropped and she changed. She went up a different branch of the tree and she is a computer whiz. She was going to go to college for that. I asked her what is the problem. She said well, I can't afford it. That's why she is not going to college, you know, and it makes me feel pretty bad to know that she wanted to go to college and I was going to pay her way through college but with the farm prices the way they are, just can't be done. But I got four other kids that I am going farming because four others want to go farming you know. Maybe when they are 16, 17, they might want to get off but I want to have a farm for them when they get older. And that's just what I am here for, you know. A lot of people talk about milk prices and stuff and I am just here to talk about my kids for the future. They need a farm. And I am in the National Guard, I was in the Marines 4 years and I have been in the National Guard for 8 years. And 8 years of this time, I haven't seen any cheese or butter, real butter on our chow table. And for coffee we have non-dairy creamer. You know, the government is buying surplus. You know, I don't feel that's right. I have asked several times, you know why, nobody replies to it. And I sat back and listened to a lot of the people talking about how are they going to reduce the farmers, you know, what is the fair line?

I think, I don't know how it would work but I think it should be a percentage of cows per person like say the family farm. If mother and father and two kids are here, they should be based on a family of four as long as it's a family farm. You know, you can't say knock out 20 to 30 percent on your family farm if, you know, say you got two kids at home that want to continue farming you have got to have at least 150, 200 cows so it should be based on the amount of people that are going to stay there on the family farm that are going to operate it. You can't give the guy down the road the same thing if it's just him and his wife and he buys all his feed, wouldn't be fair. I think that you have got five kids that want to go home, they want to stay on the farm, you should, you know, say for example like 50 cows per person, per family. And if one decides to leave, then you drop down to 200. It would be like a quota or something.

Mr. Rutherford: I hear you saying that you don't want a strict quota which you would have to buy because that would make it more impossible to achieve your dream. Nor do you feel that there ought to be a supply management, because that would not allow you to expand to a sufficient level to take care of your family.

Mr. Letourneau: Well, I feel it should be a quota like they are saying this million and a half but also, you know, it shouldn't be a 3,000-cow milk thing for they call it a family farm which they are hiring 12 outsiders. You know, they should take the drastic cut more than a family farm. If somebody has got seven kids and they all want to stay farming, they should have, you know, whatever the base. If that means they should be allowed to have 350, 400, whatever the man per cow, you know, to survive, to actually survive. It's just an idea I had to draw a line either by saying, how do you draw the line? You know, if you want to have a family stay in and they all want to stay home and farm if they don't, you know, it should be a yearly census and you have to submit five kids at home, husband, wife, three kids or whatever and you are equal. You are allowed to have so many cows to produce because you need, for every hand you need—

Mr. Rutherford: In other words the more cows you have, the more kids you're going to need.

Mr. Douma: On that note, my brother and I are partners, I have nine employees and their families depend entirely upon their wages. Should I get enough cows for each one of my employees to continue their employment?

Mr. Letourneau: Not the employment of an outsider, employment of your own family.

Mr. Douma: Okay.

Mr. Rutherford: Okay. Are there any other comments or questions? No. I give you a lot of credit for wanting to start out. It's got to be a gutsy decision, and I think we have all been there. Everybody in the room here has been there at one point or another and we sincerely wish you a lot of luck. It's going to be a lot of hard work, but you can make it. There are some great rewards and personal satisfaction. It's a great way to raise a family.

Mr. Letourneau: There is another thing, too. I used to mow around a 30-acre field and have stones there throughout the field. This year I run across the problem, survey stakes, take a 30-acre field and survey stakes all through it, it's unreal, that's the problem.

Mr. Rutherford: That's the problem. Everything has developed and it is felt.

Mr. Letourneau: What are they going to do in 10 years? That's all I got.

Mr. Rutherford: Thank you. Are there any other questions or comments? Leo, thank you very much. Is there anyone else that would like to testify? If not, we thank everybody for their intelligence and support. Certainly our reporters, we appreciate your longevity in staying with us. It has been a long day but a very beneficial trip. I appreciate it.

HEARING ENDED AT 5:30 P.M.

**The Following is Written Testimony
Submitted to the Commission**

**Statement of Mason Persons
Marsfield, Vermont**

We've been farming in Cabot for over 30 years and milk around 50 head, and farm 250 acres. My wife and I have raised a family and are thankful for a satisfying life. We only ask for a decent financial return for investment of time, money, and effort. The younger generation also needs encouragement if they are to stay in farming.

A continual oversupply of milk is now a problem in some regions of the country. When a surplus is picked up by the government, that milk should bring a lesser price. Otherwise, where is the incentive to produce less?

The laws of supply and demand should govern price. I'd like to see the government a little less involved in that process. As it is now, it looks as if producers of excess milk are being rewarded with the government picking up the tab. Farmers are not dumb. Why give up a good thing?

Milk diversion didn't work. Whole herd buyout isn't going to work. Money is what talks. Real farmers don't talk much, but they listen real well.

**Statement of Louis Maxfield
Lemax Farm, North Harland, Vermont**

I am 59 years old. My wife is 58. We have been dairy farming for 41 years. We have seen and lived through ups and downs. Basically, we have worked hard and have fared well. Our two sons have elected to pursue other careers that do not demand a 7-day week and a 12-hour day. We would like to continue with hired labor. This is the sticking point. We cannot compete wage-wise with surrounding industry. It would seem that a regional pricing system for milk would be of benefit. Also, I am a believer in advertising our product.

I appreciated the opportunity to visit with Jeff Lyon in his office in Washington, D.C. on July 23rd.

All in all, common sense, hard work, and individual initiative will accomplish much.

Statement of Laurence Allen

I live in Chelsea, Vermont located in Orange County located 30 miles north of White River Junction, Vermont. I operate a dairy farm with 70 milkers with the help of 2 sons. We also do forest work and maple sugaring. We have a herd average of 17,600 pounds.

We live in a high cost area of producing milk. We have a short growing season, and have to import most of our feed grains at a high cost. This year we were hit with the high cost of land.

We live in the beautiful hills of Vermont, where people from Boston, Hartford, and New York City want to own a piece of the action. Orange County is blessed with 2 interstates, 91 on the east is 23 miles from my place, and 89 on the west is 11 miles. Land per acre is \$2,000 or more.

We need some type of support program for milk. Due to the different cost of producing 100 pounds of milk, some type of region or area consideration should be looked at—North-east, Southeast, Far West, etc.

A voluntary quota, assessment, or diversion on overproduction would be one way to go. A region that is selling to CCC would have an assessment charge to that region instead of having the cost charged to all dairymen, even where there is no overproduction. This plan would give dairymen in overproduction regions a choice of lowering the price and selling product in the commercial market or selling to CCC.

Statement of Roger B. Scott

To Whom It May Concern:

As one who has owned and operated a family farm for 41 years, I am very concerned about family farms. But, I am opposed to the Harkin-Gephardt bill because it is not going to help the Northeast dairymen who have to purchase grain from the Midwest as 75 or 80 percent of the Northeast farmers do.

I would like to stress very strongly that much of our problem would be solved if the casein imports and now the chocolate imports were cut back to a realistic level and/or proper tariffs were imposed on them to make them competitive with U.S. products.

These U.S. products should be priced by a formula that reflects cost of production plus a reasonable profit without any government subsidies!

Thank you for this time.

**Statement of Anthony Pollina
Montpelier, Vermont**

The number one issue facing dairy farmers in Vermont and elsewhere is price.

Dairy farmers must receive a fair and stable price for the products they produce.

Establishing and maintaining a fair farm price must be the top priority of policymakers and farmers.

Rather than push government out of agriculture, we demand that government farm policies regain their original purpose and that government play a positive—rather than its current negative—role in farm policy. That is maintaining fair farm prices and helping farmers balance production with market demand.

As it has in the past government should once again establish a fair price for farm products using the parity index to calculate "cost plus" figures for farm products.

Once a fair price is established an effective supply management program must be instituted to maintain farm prices and to balance supply and demand.

At this time, the Dairy Section of the Family Farm Act—Senate Bill 658—introduced in the U.S. Congress represents the best means of ensuring both fair farm prices and effective supply management.

The Family Farm Act contains the major elements of a fair and workable farm program: fair and stable prices, effective supply management and major taxpayer savings through the ending of most farm subsidies. Because the bill allows farmers to vote in a referendum on the program before it is enacted and every 4 years after, the program would only be instituted if a majority of producers favored it.

A recent study of the impact of the Family Farm Act on Northeast dairy farmers conducted by farmers in Vermont and New York with the assistance of the Texas Department of Agriculture, using model farm budgets developed by Cornell University, showed that this program would significantly increase the income and profits of the great majority of Northeast dairy producers. This included even small farmers who purchase all their feed off the farm.

We understand very well that the Northeast is a milk deficit region and the milk supply conditions vary from region to region across the country.

Because of that we are working with farmers throughout the Nation to improve the Family Farm Act program so that it better reflects these regional differences.

We offer the following program:

A regionalized two-tier or base excess program.

Each farmer would be assigned a production base equal to their previous year's production.

All producers would cut production in order to bring national milk production in line with demand. However, production cutbacks would be targeted according to production levels. Smaller producers would cut production the smallest percentage and so on.

Producers would receive a parity price for milk produced within their production base.

Surplus or second-tier milk produced above the farmer's base would receive a much lower price.

However, this second-tier price (or base excess price) would be allowed to fluctuate. It would rise and fall regionally, according to a formula designed to consider at least the following factors:

- the demand for milk in that region
- the need to maintain the MW price at parity
- the need to recognize that a certain amount of milk (equal to current amounts) must be permitted to flow between regions.

In this manner farmers in milk deficit regions where the demand for milk is strong would be able to produce a greater amount of milk above their "base" without a penalty. As long as the milk was needed in that region they would receive a fair return for it. (Although this overbase production would still bring a price below the parity price or base price).

As the region's milk supply reached surplus conditions, the excess base price would fall accordingly. Should the CCC need to make purchases the CCC price would fall to a very low level.

This would guarantee the CCC the lowest possible price and seriously discourage overproduction of milk that is not needed.

This type of program could be attained by amending the dairy provisions of the current Family Farm Act dairy section.

The key difference is allowing the base excess price to float according to regional demand.

Because the Family Farm Act already has broad support among farmers as well as consumer, church, and labor groups, it is the best vehicle currently available for this type of legislation.

While we are concerned with regional differences we are also aware that the current regional problems are more the result of environmental conditions and government policy than any attempt by family farmers in one region to hurt family farmers in another region.

California farmers, for example, may be producing surplus milk, but they are not breaking any law in doing so. In fact they are encouraged to do so by current policies.

It is our intent to develop a dairy program that recognizes regional needs but is fair to all producers, from Vermont to California.

A regionalized two-tier pricing program based upon the Family Farm Act dairy program as outlined here would achieve our goal of fair farm prices, effective supply management, and a healthy family farm system in the Northeast and throughout the Nation.

The enclosed is a report on "The Economic Impact of the Family Farm Act on Northeastern Dairy Farms, Including a Response to the Cornell University Study of May 1967."

This summary is a joint effort of farmers in New York and Vermont, with technical assistance from the Texas Department of Agriculture. It is an effort to look realistically at the impact of the Family Farm Act program on area dairy farmers. By necessity it is in part a response to a study of the Family Farm Act recently released by Cornell University on the impact of the Family Farm Act on New York State dairy farms.

Previous studies, such as the one conducted by the Food and Agricultural Policy Research Institute (FAPRI) confirmed that the Family Farm Act program would on average increase net farm income, slash taxpayer costs, bring supply and demand into balance and fund food and hunger programs while bringing modest increases in consumer prices.

This research in this report shows the program will also have a positive impact on Northeastern dairy farms.

This report is offered as part of our effort to encourage open debate on farm policy in general and the Family Farm Act concepts of parity pricing and supply management.

We can also make available more information concerning the Family Farm Act, including full results of the study con-

ducted by FAPRI and a Summary and Recommendations of the National Dairy Meeting, held in Montpelier, Vermont in March of 1987.

For information or to receive these materials contact Rural Vermont or the New York State Farm Alliance.

Table I

Increase in Income Provided by Family Farm Act for
Typical New York Dairy Farms
Using Cornell Model
With Actual 1988 Family Farm Act Prices*

Forage Only - Case 1

	Net Income	% Change in Net Income
Small (Current)	\$ 3,820.23	
0% Reduction	\$10,032.56	162.62%
15% Reduction	\$ 7,530.19	97.11%
30% Reduction	\$ 5,029.82	31.66%
Medium (Current)	\$ 7,454.13	
0% Reduction	\$16,543.53	121.94%
15% Reduction	\$12,802.69	71.75%
30% Reduction	\$ 9,061.85	21.57%
Large (Current)	\$43,199.77	
0% Reduction	\$67,865.21	57.10%
15% Reduction	\$60,567.16	40.20%
30% Reduction	\$47,270.10	9.42%

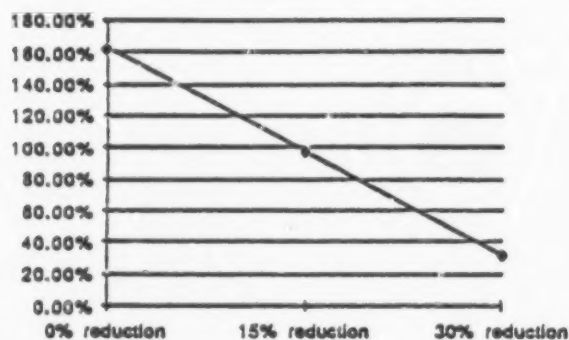
Dairy Some Grain-1A

Small (Current)	\$ 5,949.00	
0% Reduction	\$21,054.71	253.92%
15% Reduction	\$20,058.56	237.18%
30% Reduction	\$18,219.40	206.26%
Medium (Current)	\$ 5,675.00	
0% Reduction	\$35,434.17	524.39%
15% Reduction	\$34,158.44	501.91%
30% Reduction	\$29,973.72	428.17%
Large (Current)	\$ 56,285.00	
0% Reduction	\$121,355.40	115.61%
15% Reduction	\$119,318.04	111.99%
30% Reduction	\$110,179.68	95.75%

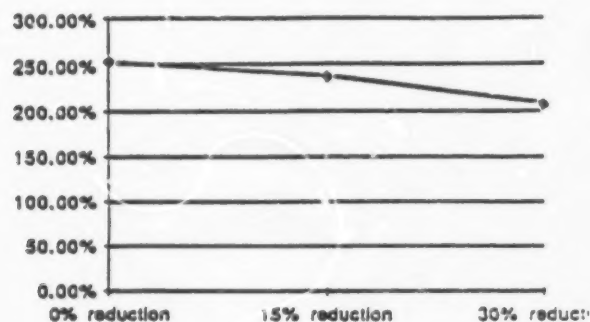
*Research: Texas Department of Agric

Increase in Income Provided by Family Farm Act for
Typical New York Dairy Farms
Using Cornell Model
With Actual 1988 Family Farm Act Prices*

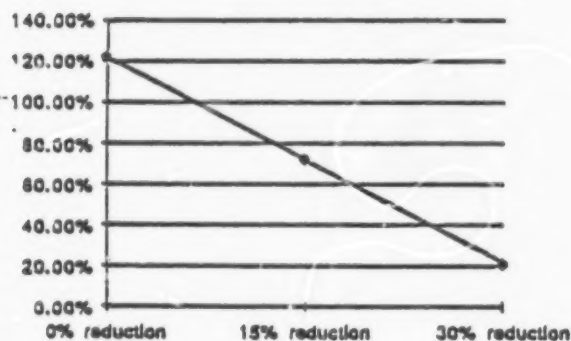
Small Forage Only Dairy



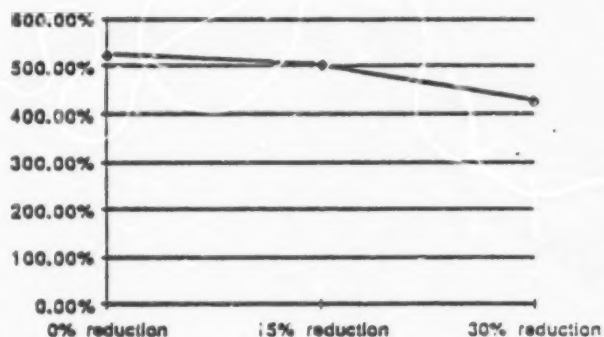
Small Some Grain Farms



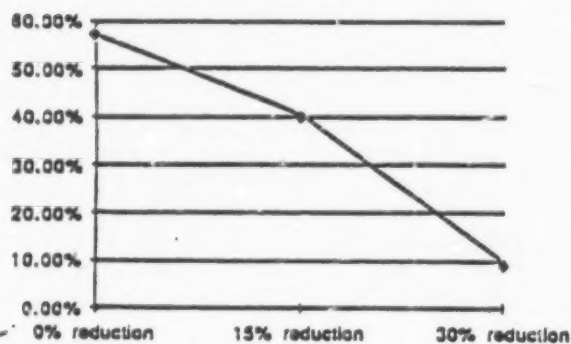
Medium Forage-Only Dairy



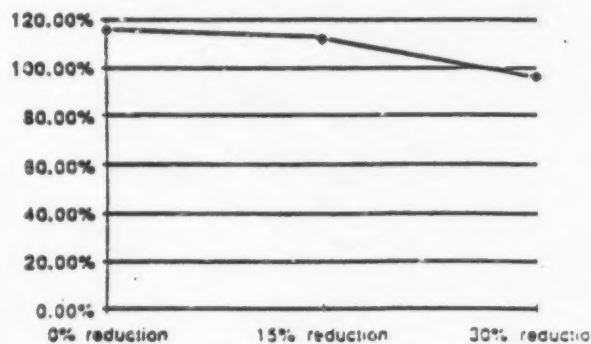
Medium Some Grain Farms



Large Forage Only Dairy



Large Some Grain Farms



*Research: Texas Department of Agriculture

ECONOMIC IMPACT OF THE FAMILY FARM ACT OF 1987
ON THE NORTHEAST DAIRY FARM

Table II

by
John Hathaway, Ilion, NY
315/822-6216

USDA January 1987 parity milk price = \$22.90
Food Security Act support price at 3.67 = \$11.10 (BF Diff = .155)
(Present support at 48.5% of parity)
Milk support price changes at 3.67 BF
Family Farm Act support price at 3.67 = \$16.03 (BF Diff = .223)
Family Farm Act increase in support price = \$4.93 (BF Diff = .068)

Family Farm Act support price adjusted to 3.5% BF = \$15.65
Food Security Act support price adjusted to 3.5% BF = \$10.84
Calculated Fed. Order 2 minimum blend price under
Family Farm Act = \$16.93.

If the price of a ton of feed is broken into actual ingredients
versus handling cost, the price of a ton of feed would go up by 60%
or by a factor of 1.6 under Family Farm Act.

ALL FIGURES FOR THIS WORK REPRESENT JANUARY 1987 PRICES AND PARITY

CORN	30% present parity price	\$ 51.07T
	vs. 70% parity price	\$119.17T
SOYBEANS	40% present parity price	\$156.33T
	vs. 70% parity price	\$273.58T
*SOYMEAL (44%)	40% present parity price	\$131.32T
	vs. 70% parity price	\$229.81T
BARLEY	37% present parity price	\$ 65.83T
	vs. 70% parity price	\$124.55T

*.84 M factor: soymeal is only 84% of whole soybean

PRESENT PARITY PRICE	TRANSPORT & HANDLING	DELIVERED AT FARM
\$ 51.07T Corn	\$28.93T	\$ 80.00T
\$131.32T Soymeal	\$68.68T	\$200.00T
\$ 65.83T Barley	\$ 9.17T	\$ 75.00T

Prices Delivered to Farm at 70% Parity

\$119.77T Corn	\$28.93T	\$143.10T
\$229.81T Soymeal	\$68.63T	\$298.49T
\$124.55T Barley	\$ 9.17T	\$133.72T

REPRESENTATIVE FARM ONE: 65 Cow Farm

Grain Formula Present Price

800 lbs.	Corn	x	\$ 4.00	=	\$ 32.00
500 lbs.	Barley	x	\$ 3.75	=	\$ 18.75
650 lbs.	Soymeal	x	\$10.00	=	\$ 65.00
50 lbs.	Salt and minerals at		\$ 9.00	=	\$ <u>9.00</u>

Present Costs \$124.75

Grain Formula 70% Parity Price

800 lbs.	Corn	x	\$ 7.41	=	\$ 59.28
500 lbs.	Barley	x	\$ 6.69	=	\$ 33.43
650 lbs.	Soymeal	x	\$14.92	=	\$ 97.00
50 lbs.	Salt and minerals at		\$ 9.00	=	\$ <u>9.00</u>

70% Parity Costs \$198.71

This is an increase of 59% or 1.59

Present

Milk produced 12,364 cwt at \$12.09 blend price = \$149,480.76
 Grain fed 206 Tons at \$124.75 per ton = 25,698.50 (FSA)

Left for Expenses \$123,782.26

Family Farm Act

Milk produced 12,364 cwt at \$16.93 blend price = \$209,322.52
 Grain fed 206 Tons at \$198.71 per ton = 40,934.26 (FFA)

Left for Expenses \$168,388.26

FFA Impact at 10% Production Cutback

\$188,390.26 10% cutback in milk production @ \$16.93/cwt
36,840.83 Grain decreased 10% @ 198.71 Ton
 \$151,549.43 Left for expenses (increase of \$27,767.17 over
 current program)

FFA Impact at 15% Production Cutback

\$177,924.14 15% cutback in milk production @ \$16.93/cwt
34,794.12 Grain decreased 15% @ 198.71 Ton
 \$143,130.20 Left for expenses (increase of \$19,347.76 over
 current program)

REPRESENTATIVE FARM 2: 90 Cow Farm
Top forage program/Boughten commercial ration fed 1-4 ratio

Present

Milk produced	16,427 cwt at \$12.09 blend price =	\$198,602.43	
Grain fed	205 Tons at \$136.00 per ton =	<u>27,880.00</u>	(FSA)

Left for Expenses \$170,722.43

Family Farm Act

Milk produced	16,427 cwt at \$16.93 blend price =	\$278,109.11	
Grain fed	205 Tons at \$216.24 per ton =	<u>44,329.20</u>	(FFA)

Left for Expenses \$233,779.91

FFA Impact at 10% Production Cutback

\$250,298.19	10% cutback in milk production @ \$16.93/cwt.
<u>39,896.26</u>	Grain decreased 10% @ \$216.24/ton

\$210,401.93 Left for expenses (increase of \$39,679.50 over current program)

FFA Impact at 15% Production Cutback

\$236,392.74	15% cutback in milk production @ \$16.93/cwt.
<u>37,679.82</u>	Grain decreased 15% @ \$216.24/ton

\$198,712.92 Left for expenses (increase of \$27,990.49 over current program)

Economic Impact of the Family Farm Act on Northeastern Dairy Farms, Including a Response to the Cornell University Study of May 1987.

Results of work done by farmers in Vermont and New York show that Northeastern farmers will see significant gains in net income under the proposed Family Farm Act, contradicting a recent Cornell University report. The greatest increases in income, they find, will be enjoyed by the smaller farms.

According to their research and drawing upon the Cornell study, "The Impact of the Family Farm Act on New York Dairy Farmers," even small farms that buy all their grain would see their net income on average increase by 97 percent, even with a 15 percent production cutback and higher grain prices.

The Family Farm Act would allow farmers to vote on a program of mandatory supply management and higher farm prices. In the first year of the program farm prices would be set at 70 percent of parity, increasing 1 percent of parity each year for the next ten years. The program would be instituted only after a farmer referendum gave its approval. Every four years another referendum would be held to see if farmers want to continue the program.

The Cornell study looked at the impact of the bill on representative New York State dairy farms.

But farmers in the Northeast have uncovered serious misconceptions that undermine the conclusions of the Cornell study.

The farmers have presented solid evidence that the Cornell study uses the wrong figures for both milk prices and feed costs. The 70 percent of parity milk price used in the Cornell study is too low and the grain price is much too high, according to the dairy farmers.

Milk Prices: Should the Family Farm Act pass in 1987 and be enacted in 1988 the milk price at 70 percent of parity would be \$16.95/cwt, not \$15.02 as claimed in the Cornell study.

Even using current parity levels (with today's low grain costs) the \$15.00 estimate of 70 percent of parity is low. Milk parity currently stands around \$23.00 per cwt. 70 percent of that figure would bring milk prices on average to \$16.10. With the expected increased cost of feed grain, the milk parity levels would be higher. Because the proposed legislation maintains the existing market order system, farmers studying the bill estimate 70 percent of parity will be \$16.95/cwt in the Northeast.

Farmers who have worked closely on the bill say its intent is clearly to include all production costs, including grain, in determining the milk price, immediately at the outset of the program. Because the traditional definition of parity includes only the previous ten years' expenses, farmers say the bill's sponsors will strengthen the language of the dairy section to assure all product costs are immediately factored into the milk price.

The important thing, they point out, is that the average blend price will be closer to \$17/cwt in the first year of the program—not \$15 as stated in the Cornell study.

Grain Prices: The Cornell study greatly overestimates the cost increase of grain. The Cornell study assumes incorrectly that all of a dairy farmer's grain cost goes directly to the purchase of whole grains which would be directly affected by the parity increase. The Cornell study assumes, incorrectly, that all the costs associated with feed grains will increase. Actually, the price of each ton of feed contains fixed costs: Transportation, milling, salt, minerals, molasses, sales and profit to name a few. These costs are not affected by the change of parity, but remain constant. Furthermore, commercial feed does not depend solely on whole grain. It depends in large part on byproducts from the manufacturer of other food-related products, which would be far less affected by a price increase at the farm level.

Farmers, therefore, take exception with the factor used to compute grain prices in the Cornell study. Cornell multiplies grain costs by a factor of 2.29 to determine increased grain expenses under the bill. This greatly overestimates the cost increase of grain according to farmers, whose research shows the actual increase would be much closer to a factor of 1.5 or 1.6.

Table I was prepared by researchers at the Texas Department of Agriculture at the request of Rural Vermont. It presents income changes for small, medium and large "forage only" (farms that buy all grain), and some grain farms, using the representative farm budgets developed for the Cornell study.

The results show that, for example, with a 15 percent production cutback, forage only farms would realize gains in net income of, on average, between 40 percent and 97 percent.

New York dairy farmers recently meet with Harry Kaiser who prepared the Cornell study, outlined their concerns and conclusions and requested that he re-examine and correct his assumptions and results.

The farmers point out that their projections and conclusions are supported by the results of an extensive study of the Family Farm Act by the Food and Agriculture Policy Research Institute (FAPRI). FAPRI is an independent analytical group, sponsored by Congress and the Universities of Missouri and Iowa State to provide objective economic impact statements regarding various farm legislative proposals. As such, FAPRI does not endorse or denounce any particular farm bill.

FAPRI found that the Family Farm Act would on average increase farm income while slashing government costs.

Northeastern farmers also point to the broad coalition of farm, religious, consumer and labor groups working in support of the bill as evidence that higher farm prices and the Family Farm Act have the support of many consumers as well as farmers.

The farmers also say a recent Washington Post story that uncovered a major, high priced, lobbying effort by agribusiness to kill the Family Farm Act helps explain a lot of the misinformation currently circulating about the bill's impact.

They also remind fellow New England dairy farmers that amendments to the Family Farm Act are being developed to

target/regionalize the bill, in an effort to further protect the Northeast and other milk deficit areas.

(Table II outlines the impact of the Family Farm Act on two representative New York dairy farms.)

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